

CHARLES UNIVERSITY IN PRAGUE

FACULTY OF SOCIAL SCIENCES

International Economic and Political Studies

Master thesis

2015

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**Economic implications of
Turkish accession to the EU:
advantages and disadvantages**

Master thesis

Prague 2015

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Academic Year: 2014/2015

Bibliographic note

GURBANOV, Rashad. *Economic implications of Turkish accession to the EU: advantages and disadvantages*. 72 p. Master thesis. Charles University, Faculty of Social Sciences, Institute of International economic and Political Studies, Supervisor Dr. Wadim Strielkowski

Abstract

The European Union has long established itself as the world's most powerful regional supranational formation, which is achieved thanks to its economic results, geopolitical influence, and military might. European integration offers countries with an opportunity to boost their development and have greater impact in the international arena. However, the EU accession criteria are quite hard to meet, and many countries face significant difficulties in this respect, which is the case of Turkey. Since 1987, when Turkey officially applied for membership in the EU, the country hasn't completed its integration in the European community yet. This thesis investigates the main economic advantages and disadvantages in the context of Turkey's prospective accession to the European Union as a full-fledged member state.

Abstrakt

Evropská unie se už dlouhou dobu považuje za nejmocnější regionální multinárodní formaci, což je též prokázáno díky hospodářským výsledkům, geopolitickému vlivu a vojenské moci. Evropská unie nabízí členským státům posílit jejich rozvoj a význam na mezinárodní geopolitické scéně. Nicméně, kritéria pro vstupu do EU jsou poměrně složité pro splnění pro mnohé země, například Turecko. Svědčí tomu i fakt, že dosud tato země nebyla přijata do Evropské unie, ačkoliv požádala o členství v EU ještě v roce 1987.

Tato práce zkoumá hlavní ekonomické výhody a nevýhody v souvislosti s možným budoucím přistoupením Turecka do Evropské unie jako plnohodnotného členského státu.

Keywords

Turkey, European Union, integration, geopolitics, economic implications

Klíčová slova

Turecko, Evropská unie, integrace, geopolitika, ekonomické dopady

Declaration of Authorship

1. I declare that this MT is free from any sort of plagiarism.
2. I declare that this MT draft contains 125710 characters (including spaces).
3. I assess that my own ideas contribute by approximately 70 % to the presented text.

Prague **14.05.2015**

Rashad Gurbanov

Acknowledgments

I would like to bring my deep gratitude

to my thesis supervisor **Dr. Wadim Strielkowski and Doc. Ing. Vladimír Benáček** for their assistance, recommendations and patience,

to my family for their endless support and inspiration.

to my friends Ayaz Zeynalov, Farid Suleymanov for their help in obtaining and refining data, as well as valuable advices.

Master Thesis Proposal

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Proposed Topic:

Economic Implications of Turkish Accession to the EU: Advantages and Disadvantages

Topic Characteristics:

EU is an institution where Turkey is united around common norms, principles and values. Turkey, as a member of the European family, has not only affected the political, economic and socio - cultural development, but has itself been affected by them. Without analyzing the role of Turkey in the continent, a complete assessment of the European economy is not possible. Therefore, the relation with Europe is a basic foreign political and economic topic for Turkey. In this frame, Turkey's plan to join the EU is a strategic choice.

The relationship between Turkey and the European Union has a long history. This history has begun with the established association of the Ankara Agreement since 1960s, which continued with the partnership in 1970s named Additional Protocol. It is then followed with the establishment of Customs Union between Turkey and the EU since 1996. On one hand, Turkey plays a fundamental role as a bridge to the Eastern countries, on other hand, accession to the EU will also give an opportunity to access the new markets in Turkey. This Master thesis will study the economic and social relationship between Turkey and EU in terms of economic development and immigration.

In 1995, Turkey and EU were linked by a Customs Unions agreement which aimed at supporting trade and economic relations. This agreement was ambitious, but it was not covering essential areas such as agriculture, in which bilateral trade concessions apply.

There have been deep trade relationships between Turkey and EU for a long time which could be shown by the development at their import and export markets. Since 1996, when the Customs Union came into force, Turkey has reached a very advanced level on the harmonization of legislation in this area. Customs union has not only reconfigured Turkey's foreign trade regime; has played a role in continued development of trade relations with the EU and has important consequences in terms of trade with third countries. The trade volume between Turkey and the EU has increased considerably after the Customs Union: in 1996 Turkey - EU trade volume was 36.2 billion dollars, in 2010, the Turkey-EU trade volume has increased to 125 billion dollars. According to an Association Agreement signed in 1963, between Turkey and European Union, the Customs Union covers all industrial goods but does not address agriculture services and public procurement. European Coal and Steel Community covered a free trade area, which was established between Turkey and the European Union for products in 1996.

Finally, there is a capacity to create Euro-Mediterranean free trade area as Turkey is also member of the Euro-Mediterranean partnership and as such should conclude free trade agreements with all other Mediterranean partners. On one hand, migration is one of the most important problems of EU nowadays, on the other hand, it is assessing as a solution of aging EU population. In EU, population of working age shows a serious decline in the recent years. This situation significantly increases the payment of pensions and health care, which could lead to a significant loss of dynamism in economy. Accordingly, migration has a large role in the demographic development of the EU. Turkey has opportunity to solve the migration problem in EU with its young generation. Therefore, this research proposal will analyze the migration relationship between Turkey and EU in case of economic and social point of view.

Hypotheses:

1. Hypothesis #1: The accession to EU gives opportunity to Turkey for new markets which it tends a strong economic relationship between Turkey and EU in a long run.
2. Hypothesis #2: Turkey plays a fundamental role as a bridge to the Muslim world also in relationship between EU, and African and Asian countries.
3. Hypothesis #3: Accession to EU will give free movement for Turkish workers, where it might solve the problem of aging in the EU.
4. Hypothesis #4: There is a strong relationship between economic growth and Foreign Direct Investment (FDI), thus accession will give huge amount of FDI on Turkish economy.

Methodology:

The research proposal will analyze the impacts of trade with EU, migration and FDI on Turkey's GDP growth. To analyze the relationship between these factors and economic growth, the following empirical growth model will be followed:

$$\text{GDP in constant prices} = \beta_0 + \beta_1 * I + \beta_2 * \text{FDI} + \beta_3 * \text{EXP} + \beta_4 * \text{OEXP} + \beta_5 * M + e$$

where GDP is GDP in constant price, I is domestic investments, FDI is foreign direct investments, EXP is exports to the EU, OEX is other exports to the EU, and M is migrants. The main question is the impact of trade, migration and the FDI of EU on Turkey's economic development.

Outline:

- I. Introduction
- II. Literature review
- III. Historical background of accession to EU
- IV. Economic implication of Turkey's EU membership
 - A. Trade
 - B. Migration
 - C. FDI
- V. Methodology
- VI. Data description
- VII. Result

VIII. Conclusion

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1	INTRODUCTION	11
2	THEORETICAL BACKGROUND OF INTEGRATION AND ACCESSION PROCESS	13
2.1	THE ESSENCE OF EU AND ITS CONNECTION TO THE PROCESS OF ACCESSION..	13
2.2	THE THEORIES OF EU INTEGRATION	14
2.2.1	<i>Federalism</i>	14
2.2.2	<i>Functionalism</i>	16
2.2.3	<i>Neo-functionalism</i>	18
2.2.4	<i>The theory of "security community"</i>	20
3	TURKEY AND EU ACCESSION.....	22
3.1	FULFILMENT OF THE ACCESSION CRITERIA.....	23
3.2	HISTORICAL RETROSPECTIVE AND THE FLOW OF NEGOTIATION PROCESS	26
3.3	STATE-OF-THE-ART: TURKEY AND THE EU.....	29
4	ADVANTAGES AND DISADVANTAGES OF TURKEY ACCESSION TO EU: AN EMPIRICAL MODEL	34
4.1	RESEARCH HYPOTHESES	34
4.2	ADVANTAGES OF TURKEY’S ACCESSION TO THE EUROPEAN UNION	35
4.3	DISADVANTAGES OF TURKEY’S ACCESSION TO THE EUROPEAN UNION	44
4.4	RESULTS OF HYPOTHESES TESTING	51
5	CONCLUSIONS AND POLICY IMPLICATIONS.....	59
	BIBLIOGRAPHY	63

1 Introduction

The history of relations between the European Union (EU) and the Republic of Turkey, namely in the field of Turkey's gradual procession from an associate to full-fledged member of the European Union, dates back to the 1960s. In 1999, Turkey received the status of candidate for membership, however with greater doubts on the side of the EU member states than in the case of the countries of Central and Eastern Europe (see Guerin and Stivachtis, 2011). As of today, most CEE countries are already EU members, whereas the accession negotiations with Turkey started only in 2005. The negotiation process was complicated by the emergence of various problems and has been repeatedly interrupted.

This complicated nature of relationships puts on the agenda the question of their actual content, grounding the assumption that the process of Turkey's accession to the EU is regulated not only by objective membership criteria, but is also influenced by the EU's subjective approach to Turkey.

In order to examine the existence of the alleged element of subjectivity from different perspectives, in this thesis, I would like to conduct an analysis of the actual compliance of Turkey's level of economic development with the EU criteria which include a number of purely economic aspects, but as well numerous institutional, legal and other points that could not be covered in my work. The importance of such an analysis in order to understand the current state and prospects of relationships between Turkey and the EU explains the relevance of the research topic. The exploration and evaluation of the extent to which the level of Turkey's economic development meets both general and some more specific parameters and requirements of the EU can also help identify the economic and institutional problems that will be the main substance of the relationships between Turkey and the EU in the future, and at the same time can be useful in the process of identification and prediction of important trends in the transformation of the national economy in case of a very likely enduring of the policy of Turkey in the development of integration with the EU.

The subject of this study is the hypothetical advantages and disadvantages of Turkey's accession to the EU and, therefore, the level of development of the Turkish

economy, especially those macroeconomic and microeconomic criteria which are considered as the EU membership criteria for candidate countries.

The main goal is to determine the extent to which Turkey reached the level of economic development of the EU requirements, determine the characteristics and patterns of economic integration processes related to this state's accession to the existing union of countries whose level of development is higher than its own one, as well as to evaluate the prospective opportunities of Turkey's full-scale economic integration with the EU. The methodological basis of the research conducted within the thesis is linked with a systematic approach using the historical method, the method of comparative analysis, as well as methods of analysis of economic statistics.

In addition to the theoretical analysis, I will also run a comprehensive statistical analysis of Turkey's key financial and macroeconomic indicators, for which purpose I will use an empirical model of statistical regression. This is important for tracking the dynamics of Turkey's financial and macroeconomic positions, and evaluating how such positions may prospectively affect the country's course toward integration with the European Union. At the same time, such analysis will make it possible to define the weakest points of the Turkish economy which currently do not allow meeting in full the requirements of the European Union, thus braking the entire process of further European integration.

This thesis is divided into 5 chapters. Chapter 1 provides an introduction, and briefly explains the main motives of this study. Chapter 2 elaborates the theoretical background of the integration process. Chapter 3 outlines the process of Turkey's path to EU accession. Moreover, it provides a literature review of the previous studies dealing with the EU-Turkey relations, especially with regard to Turkey's EU membership. Chapter 4 outlines the methodology, research hypotheses, and presents an empirical model and its main results. Chapter 5 brings conclusions and policy implications.

2 Theoretical background of integration and accession process

2.1 The essence of EU and Its Connection to the Process of Accession

The main objectives of the European Union are ensuring freedom, security and justice; promoting economic and social progress; affirming the role of Europe in the world (The Founding Principles of the Union, europa.eu). These objectives are declared to be achieved through:

- 1) Formation of a closer union among the people of Europe, promotion of balanced and sustained economic progress, especially through the creation of an area without internal borders; strengthening of economic and social interaction; establishment of an economic and monetary union, and creation of a single currency;
- 2) Approval of the own identity in the international arena, particularly through joint foreign and security policies, and in the future through common defense policies as well;
- 3) Development of cooperation in the field of justice and internal affairs;
- 4) Preservation and enhancement of the global commons (“acquiscommunautaire”).

Article 49 of the EU Treaty provides any European state with the possibility of acceding to the Union, subject to compliance with the principles set out in Part 1 of Article 6 of the Treaty, i.e. the principles of freedom, democracy and respect for human rights and fundamental freedoms, as well as the presence of a legal state (see Massai, 2011). In addition to these requirements, the candidate state’s economic indicators must comply with the ones of the other countries members of the EU, and it must harmonize its legislation, that is, bring the norms of its domestic law in conformity with the EU law.

In its turn, the European Union is based on three levels: the first is the customs union between the EU member states and the candidate countries meeting the required economic conditions; the second level is represented by the states participants of the

single market, ready to regulate their relations in accordance with the relevant rules of the EU (i.e. the same states as in the previous level, with the possible exception of some of the candidates); the third, more integrated, level is formed by the narrowest range of participants whose economies meet the convergence criteria for the monetary union. In accordance with this approach, a comprehensive analysis of the benefits and losses of EU membership has to include an assessment of the implications of accession to the customs union; free movement of services; labor migration; free movement of capital; accession to the monetary union; removal of non-tariff barriers, harmonization of standards; introduction of common rules regulating the EU's internal market; fiscal policy of the EU, in particular its structural funds; common agricultural policies and other agreed actions, as well as the impact on the industrial and regional structure of national economies.

2.2 The theories of EU integration

We can distinguish four basic approaches to the study and analysis of European integration, which are best known as part of the political science and played a prominent role in the development of the theoretical integration thought. In other words, those approaches represent different points of view on the issue of international political integration. However, they have much in common: almost all theories of political integration contain a hypothesis on further development of the European integration process, trying to predict the final outcome such as the creation of a supranational union, preservation of traditional interstate structure or any other distribution of powers between the national and all-European levels (see Michelmann and Soldatos, 1994). However, it should be understood that the policy of the European Union, which brings together twenty-eight sovereign countries in Europe, will always remain the policy of compromises. This means that political integration will inevitably be limited by political reality, and also by the self-interest of participants. In the following text, I would like to present the four main theories of European integration.

2.2.1 Federalism

The first and perhaps the most extreme political approach to the study and analysis of the European integration process is the theory of federalism. Only a sharp

turn towards a federal model, according to A. Spinelli, the first famous Italian federalist, the leader of the European Federalist Movement, could lead to success in uniting the entire Europe (see Michelmann and Soldatos, 1994). According to some authors, this approach is not inherently a theory, although it tends to explain significant relationships and regularities of the process underlying the union of separate political units into a single union. In relation to the European integration process, representatives of federalism put forth the thesis about the appearance of a special (federal) institutional order, which determines the nature of the relationship between the integrating units themselves and the distribution of powers between them and the emerging single centre. Describing the specificities of such distribution of powers, A. Spinelli argued that none of the authorities in the appropriate union should have any advantages, i.e. the powers of local, regional and national authorities and the powers of authorities on the European level should be combined and be complementary toward each other. In other words, interstate governmental bodies of the future "new" Europe should not be empowered by broader credentials than the authorities of individual states. The essence of federalism is the decentralization of authorities wherever it is needed. Meanwhile, we should draw our attention to the fact that decentralization "where necessary" in fact represents one of the fundamental principles of the Maastricht Treaty on the European Union - the principle of subsidiarity (see Michelmann and Soldatos, 1994).

As, perhaps, no other theory of political integration, federalism has very deep philosophical roots originating back in the Greek antiquity and the medieval European political thought. And yet, the following two facts are often considered to be the basic sources of the federalist approach:

- 1) the abundance of plans to strengthen peace in Europe in the XVII-XVIII centuries, and
- 2) the American Constitution.

As for the latter, its emergence undoubtedly gave a powerful impetus to the development and wide propagation of federalist views and theories. However, perhaps it is difficult to give a definite answer to the question of whether the American (or, for example, Swiss) model of federation can be taken as a basis when it comes to improving the integration of sovereign and independent states which has existed for

over one century, and in particular whether such a model is able to unite numerous states of modern Europe based on the principles of federalism?

As a theory of international integration, federalism advocates the point of view that the basis of the relationship between integrating countries has to lie in the model of the union state, the establishment of which is seen at the same time as a final product, i.e. the result of integration (see Cengiz and Hoffmann, 2013). In the context of the European integration process, the ideas of federalism are associated with the creation of the federal unified Europe. Moreover, federalists believe that the creation of federation would put an end to the use of violence while resolving disputes between member states, because they believe peace and security to be the federation's principal values. According to them, it is federation that can serve as a model of appropriate, democratic and efficient organization.

According to federalists, European integration cannot be a revolutionary process (see Cengiz and Hoffmann, 2013). To the contrary, it should be evolutionary, progressive development. As it has been mentioned by the well-known Western European political thinker and an active advocate of close interstate integration within the EU Jean Monnet "... *political union of Europe must be built step by step, like its economic integration and that this process may lead to a European Federation*" (see Raitio, 2001). However, it cannot only be limited to the sphere of political relations between countries, although without political integration, according to federalists, no integration can be reached at all.

2.2.2 Functionalism

The theory of functionalism significantly differs from the federalist approach to the investigation and analysis of interstate integration. In its classic form, it is presented in the works of Mitrany (1995) who advocated the transformation and renewal of ideas of international relations that had been developed over many decades and offer so-called "functional alternative" having the overall world unity as its ultimate goal (see Michelmann and Soldatos, 1994). It should be noted that the emergence of this theory has not only substantially influenced the entire development of integration theories (especially with respect to "neo-functionalism"), but also has given a significant impulse for practical actions aimed at a real convergence of European states.

One of the fundamental ideas of functionalism is connected with the assumption that international integration has to be depoliticized as much as possible, and effective co-operation between states and elimination of conflicts can and should be achieved by focusing primarily on the general issues of well-being (on both the global scale and the national level). According to functionalists, integration dynamics lead to the appearance of functional organizations having certain powers given to them directly by states. A final product of integration is, therefore, the establishment of a functional system with elements which can start work without a common political superstructure. Proponents of functionalism consider international integration as a process of transition from the traditional system of interstate relations to a kind of functional community. The process of redistribution of powers to individual states, in their opinion, should be run in favor of a supranational structure with functional effectiveness.

During the first efforts aimed at European integration, the functionalist was predominant among the proponents of creation of a powerful all-European supranational formation. Thus, the first integration communities on the territory of Europe, namely the European Steel and Coal Community and the European Atomic Energy Community, were established for the purpose of ensuring energy security of European states and promoting their economic and security. Those organizations in fact fitted into the paradigm of functionalism, as, in contrast to federalism, they didn't assume any creation of political federation, which was rather impossible, as the states hadn't yet reached the required preconditions for it. To the contrary, this was gradual integration based on the common needs in a particular field – energy security, i.e. those steps were following a certain function.

However, some experts whose attitude to this theory is critical note that in general the subsequent development of the European integration process seriously disappointed representatives of functionalism. In particular, those functional organizations in which they believed were in the long run unable to get rid of excessive politicization and concentrate their efforts solely on their functional tasks. Opponents of functionalists argue that functional goals in the economic field can never be the final goals of any supranational formation. For instance, this is confirmed by the European Union's aspiration to become a political union. I.e. the EU wishes not to stop on European integration, but to build up closer ties in the fields of politics and security,

manage all common activities from a single center, etc. This goes in contrast with the functionalist approach stressing that EU member states and prospective candidates for membership are primarily interested in integration as a tool to intensify economic cooperation and reach higher economic development. Moreover, functionalists tend to underestimate the role of military goals, while collective security mechanisms are one of the key fields of interaction between the EU member states.

The criticism of functionalism is often well-grounded taking into account the current processes occurring in the field of European integration. However, some of the fundamental ideas of D. Mitrany were subsequently significantly reconsidered, and inspired the creation of one of the most influential theories of international integration - "neo-functionalism".

2.2.3 Neo-functionalism

The emergence of neo-functionalism was associated with the period of the so-called "euroenthusiasm" in the 60-70s of the 20th century when the inevitability of further integration of the European community members got increasingly obvious. The greatest contribution to the development of this theory was made by famous theoreticians such as E. Haas, L. Lindberg, A. Etzioni (see Michelmann and Soldatos, 1994).

According to neo-functionalists, the sequence and structure of the integration process assume the establishment of a system of powerful central institution and gradual transfer of sovereignty belonging to the member states to the level of the community as a whole. In this case, both the states and their governments are considered by neo-functionalists to play a very passive role in this process, and not to stand out from the mass of acting units. The European Commission, in contrast, is believed to be an active organizer and inspirer of the integration process, while organized groups, parties and the political elite perform the role of an integration "catalyst".

This approach of neo-functionalists to the role of international organizations and communities in the process of European integration gives birth to significant criticism, as it is quite doubtful whether international organizations are indeed the key and primary drivers of integration processes on the territory of Europe. On one hand, at the

current stage of the EU's development, international structures and bodies within it indeed play a crucial role in the promotion of further deepening of cooperation between the EU member states, expansion to other prospective member states, etc. However, the establishment of the European Union started in Europe after World War II, and even though it was supported by the existing major international organizations, opponents of neo-functionalism argue that the beginning of the European processes lied in the field of European states' desire to work over common issues and reach mutually beneficial results. For instance, the governments of Belgium, the Netherlands, Luxembourg, Italy, France and Germany had established the first European communities which later transformed into the European Union. Therefore, opponents of neo-functionalists believe that nation-states and not organizations are the main factors promoting European integration.

It is essential that neo-functionalism, in contrast to other theories of political integration, does not seek at all to predict the final result of the integration process, but pays much more attention to the investigation of the process itself, i.e. tries to understand the integration mechanism. However, the proponents of this theory assert the point of view of inevitability of the emergence of a supra-national unit, "a new political society", which is situated, in terms of hierarchy, above all states. It is worth noting that it is the approach of neo-functionalism to which the appearance of the idea of "supranational" is attributed in international law.

Also, it is worth noting that the neo-functionalist approach to European integration puts economic issues in the core of those processes, which is very similar to the classic functionalist theory. According to the proponents of neo-functionalism, a major goal of the EU member states is to build a supranational market governed from a single center. I.e., in contrast to classic functionalists, neo-functionalists link economic issues lying in the core of European integration with the EU's aim to reach the state of a political union with maximum political integration.

Some authors have noted that, as compared with the functionalism theory of D. Mitrany, neo-functionalism seems to be rather a theory of regional political integration, as the subject of its research is the integration interrelationships between states belonging to a particular region of the planet. Moreover, there is a direct and significant correlation between the views of neo-functionalists and the practice of the European

Communities: very often, neo-functionalism is described as “a method of integration within the EU”.

2.2.4 The theory of "security community"

Another approach to the study and analysis of European integration which has had a fairly widespread and significant impact within the framework of political science is the theory of “security community”. This approach is based on the study of the sequence of historical events in the context of achieving and maintaining peaceful coexistence and friendly relations between states. K. Deutsch, the founder of this theory, put forth the thesis of the necessity of creation of the so-called "security community" which is a group of countries that have achieved a significant level of integration with each other, and are aware of the need for a specific community (unity). (see Michelmann and Soldatos, 1994) According to the proponents of this approach, interstate integration is a multi-pronged, multi-faceted process, and in order to get a more objective view of it, we need a large set of methods and means of analysis. In this regard, K. Deutsch offers to use a certain system of criteria so that we would be able to determine to what extent a state is successful in the implementation of its integration initiatives, how quickly their interaction within a particular area can be carried out, which factors prevent activation of their efforts in this direction, and so on.

The proponents of this theoretical approach believe that all supranational formations can be conditionally divided into two large groups of security communities: amalgamated and pluralistic ones. Amalgamated security communities are formed when independent states merge together for the purpose of forming a new state. For instance, this type of security communities can be brightly illustrated by the United States which was formed from the union of 13 independent states. Such security communities are rather rare. To the contrary, pluralistic security communities are those integration formations where independent states establish unions without losing their independence or geopolitical sovereignty. Under the theory of “security community”, the European Union is a classical pluralistic security community.

The opponents of the theory of “security community” argue that even pluralistic security communities assume partial loss of geopolitical sovereignty, as, even despite of

the fact that a member state of the European Union is free to leave the supranational formation at any time, during the time of its membership, it delegates a great part of its sovereign powers, thus losing substantial governance mechanisms which could otherwise be used without coordination with the single center.

Another important aspect of the theory of “security community” is that its authors stress that integration within the framework of security communities is only possible, if states participating in such integration processes share the same or compatible major values. This explains why states from the ex-USSR face difficulties with obtaining the status of prospective candidates for membership in the European Union. Moreover, when analyzing the history of European integration, it becomes clear that such integration would be impossible without the common values shared by European states such as prosperity, dedication to democracy or high collective security.

The theory of "security community" reveals the dynamics of political integration, particularly in the relationship established between separate governments and officials, elites, social groups, and cultural communities. Integration is regarded as a process of continuous movement to a unity adjustable by means of human interaction. The final product of integration in this case is the creation of the “security community”. In general, it should be noted that, although this approach is one of the many theories of political integration, it also has much in common with the sociological approach to the study of the European integration process and, according to some experts, is closely intertwined with the general sociological analysis in the field of investigation of relationships between social and cultural groups and communities.

3 Turkey and EU accession

Accession to the European Union is a long and complicated process which requires gradual implementation of a number of stages, and fulfillment of a number of strict criteria in the field of domestic and foreign economic and political relations. To obtain the status of official member, a country following the goal of European integration must comply with all those differently vectored indicators and criteria in all respects. However, in addition to this, it should be noted that the EU member states have the right to veto the process of any country's negotiations for accession, which only further complicates the entire process.

The process of Turkey's accession to the European Union started back in 1959, when Turkey filed an official application for membership in the European Economic Community. As of today, 55 years after that historical date, Turkey has not yet been able to obtain membership in the European Economic Community's successor, the European Union.

In this chapter of my thesis, I would like to focus on the process of Turkey's negotiations with the European Union for the country's accession to the EU as its full-fledged member. I will investigate the key historical milestones of this process in order to understand what steps have already been made by both the European Union and Turkey, and in order to understand the obstacles that prevented and still do prevent Turkey from joining the European Union as its member state.

Also, I will focus on the current achievements in the negotiations between the European Union and Turkey, and the impact of different EU member states in this context. Namely, I will investigate what currents in the European Union make the process of Turkey's accession to the EU more complicated, and what motivations guide them in such activities.

3.1 Fulfillment of the accession criteria

The main requirement of the European Union for candidate countries in the field of economic indicators is the so-called Copenhagen criteria which were defined in 1993 (see Tocci, 2011). These criteria include the presence of a functioning market economy in the candidate country, and the national economy's ability to withstand competitive pressure from other member states. In its turn, the implementation of these requirements is satisfied by achieving compliance with a number of more specific parameters, more than a half of which belong to the so-called *acquis communautaire* (the European Union's mandatory requirements imposed on Turkey and other candidate countries in terms of accession to the EU). The total number of *acquis communautaire* is 35. It is essential to note that, prior to the decision on accession to the European Union, an agreement for each of those parameters must be achieved, i.e. the resolution of a EU authority on achieving compliance must be obtained.

As for today's situation with Turkey's compliance with those criteria, in the economic and social aspects, Turkey's position is weaker than the one of the majority of other candidates for accession, including Iceland, Montenegro, and Serbia (Candidate and pre-accession countries' economic quarterly, 2013). According to "Candidate and pre-accession countries' economic quarterly" (2013), during the last year, "*GDP growth further accelerated in Iceland (4.9% year-on-year), Montenegro (4.0%) and Serbia (3.7%) while its pace stabilized or slightly decelerated in Turkey (4.4%), the Former Yugoslav Republic of Macedonia (3.3%), and Bosnia and Herzegovina.*" This source also states that the situation with inflation in 2013 was quite similar, and "*in Turkey, the year-end inflation (7.4% in December) was, however, significantly above the medium-term target of 5%.*"

Turkey's economic indicators prove that, as of today, it cannot fully take on the economic commitments to the EU. The instability of the Turkish economy, high level of inflation, budget deficit, imbalances in the territorial socio-economic development, and the hypertrophied state intervention in the economy do not allow Turkey participating in the monetary union. In other words, Turkey is a big, poor, densely populated country with a high unemployment rate that reached the level of 9.9% in 2013. (Candidate and pre-accession countries' economic quarterly, 2013) In addition, in the case of accession

to the EU, Turkey would threaten other members of the union by the influx of cheap labor force, and the Structural Funds would be forced to provide it with loans. Quite naturally, the least developed EU states (for example, Greece, Spain, Portugal, and Ireland) would not want to see Turkey as an EU member, and ,therefore, to share assistance from the EU funds with it.

Another major unresolved problem in Turkey is the legalization of "dirty" money which intensified in the 80s of the XX century due to the liberalization of the movement of foreign capital, as well as the intensification of the process of readily available government securities production. By 1996, the volume of illegal financial flows reached \$ 50 billion (38% of GDP) (see Byrnes and Munro, 2014).

Concerned about this situation since 1996, the government started taking measures: in Law No. 4208 of 1996, money laundering was included in the list of criminal offenses; in 1997, the Financial Intelligence Authority was created which effectively monitored and exposed suspicious companies until 2011. In 2007, the Law on Prevention of Money Laundering Operations introduced a system for reporting suspicious transactions, and other measures to protect the aggrieved party. In addition, in recent years, there have been some positive developments in the adoption of FATF6 standards by Turkey.

The shortcomings of the Turkish government in this sphere include lack of methods of confiscation, seizure and freezing of assets, as well as the fact that the convention of the Council of European Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism signed by Turkey in 2007 has not been ratified.

Although by 2010, Turkey was able to reach a level comparable to the countries of Europe in the field of liberalization of capital movements, however, the flow of FDI was still constrained by the limitations in a number of branches, all obstacles to the purchase of real estate by foreigners were not removed, powers of organizations struggling against money laundering and financing of terrorism remained limited (see Guerin and Stivachtis, 2011).

The main document of the Economic and Monetary Union of the EU (EMU) is the Maastricht Treaty, which was adopted in 1993. It describes the successive stages of economic and monetary policy that a country must pass through to join the Monetary

Union, and is based on a series of indicators to measure the completion of a particular stage of the EMU. In addition, the agreement includes the so-called Maastricht criteria. Those criteria stipulate the following requirements (see Mulhearn, 2008): inflation rates mustn't exceed the average inflation rates in the three countries that have achieved the best results in this area by more than 1.5%; budget deficit mustn't exceed 3% of GDP; public debt mustn't exceed 60% of GDP; interest rate on long-term loans for at least the last 12 months mustn't exceed the average interest rate on long-term loans of the three countries that have achieved the best results in this area by more than 2 percentage points. Although by the end of the first decade of the XXI century, Turkey has not achieved the indicators set by the Maastricht criteria in 3 cases out of 4 (it was able to achieve compliance only in respect of the public debt to GDP ratio), in the period from 2002 to 2010, it showed intensive narrowing of the gap with the target values. Therefore, we can assume that, in the case of continuation of the current trends in economic development, Turkey will soon be able to reach all the indicators defined by the Maastricht criteria.

However, it is not only economic factors that hamper Turkey to access the EU. The country also has a number of problems in the fields of domestic and international politics. The report of the European Commission of December 13, 1995, sets out the main provisions requiring the attention of Turkey for its accession to the EU. They are the Constitution of 1982, observance of human rights, and search for a political solution to the Kurdish issue (see Guerin and Stivachtis, 2011). The main obstacle to the democratization process in Turkey is seen in the role of the Turkish military in politics. Any threat to Kemalism is faced with an aggressive response from the military. It is because of this that they also act against the increasing political role of Islam that threatens secularism, and the activities of Kurdish separatists threatening the territorial integrity of Turkey. The current situation in the country is no longer fraught with the danger of a military coup. The last decade of the XX century indicated integration of the Turkish military in the everyday political life through the National Security Council which acts as a supervisory body. The members of the National Security Council include the President, the Prime Minister and senior officials of the Turkish armed forces. Under the Constitution of 1982, the Council plays a special role in national politics, and the Council of Ministers gives priority to its recommendations and decisions. Such a structure and its role as a supervisory authority cannot be accepted

within the EU spaces: in liberal democracies, the military sphere is managed by the civil authorities, and not vice versa. The EU opposes this omnipotent military presence in politics, and sees it as a proof that the Turkish democracy is still far behind the European standards.

Also, one of the main obstacles to Turkey's membership in the EU is the unresolved Kurdish issue. The actual policy with regard to the Kurdish population is aimed at denying the national identity of the Kurds. The Constitution of the Republic of Turkey adopted by referendum on November 7, 1982, during the reign of the military regime, includes a number of articles reflecting the state policy in this sphere. Moreover, the military conflict with the Kurds requires spending enormous resources that could otherwise be effectively used in any other area. In addition, the Kurdish problem is one of the important reasons for the high rate of inflation in Turkey (see Guerin and Stivachtis, 2011).

The European Parliament has repeatedly condemned Turkey for the bloodshed. In some cases, the EU called on the Turkish Government to ease the tense situation in the South-East, and enter into dialogue with the Kurdish militants in order to reach a peace agreement, guaranteeing the fundamental rights of the Kurds. The EU tries to influence the Turkish government, which realizes that the country's accession to the European Union is largely dependent on the maintenance of democratic order, and therefore there is a need to find a political solution to the Kurdish problem, and not a military one.

3.2 Historical retrospective and the flow of negotiation process

It is problematic to indicate the exact date when Turkey's long road to the European Union started. In the 19th century, during the times of the Ottoman Empire, the country started implementing a project of Westernization, i.e. modernization along the Western lines, within economic, political and social life, hoping to reach the level of development of the modern European civilization and take a rightful place in it. The Turkish Republic proclaimed in 1923 on the ruins of the Ottoman Empire was based on completely different principles (see Toprak, 1981). If the Ottoman Empire had united its

territories inhabited by Turks and Arabs with the help of Islam (the Sultan was considered as the patron saint of the entire Muslim community - the Umma), the Republic of Turkey declared its commitment to secularism.

Along with secularism, the "father of the Turks" Mustafa Kemal Atatürk based the foundation of the new republic on the principles of nationalism and statism that practically involved the creation of a new state within the borders of Anatolia, the territory of the traditional settlement of the Turks, that would have broad powers of intervention in all spheres of public life, and would act as a guarantor of protection of society from political Islam. Therefore, in accordance with the European tradition of secularism, Islam was restricted to the religious sphere.

Turkey has always demonstrated its political will and willingness to participate in all major events and the integration processes that became the hallmark of the post-war European history - so, in 1952, Turkey joined NATO; in 1953, it sent soldiers to Korea, became a member of the Council of Europe and the Organization for Economic Co-operation and Development (see Guerin and Stivachtis, 2011). It is also important to note that Turkey was one of the first countries wishing to join the new European integration initiative - EEC in 1959. Six months after its establishment, Turkey sent a request to join this organization that was the predecessor of the EU. Thus, it was the first step on the country's long road to the accession to the EU with a variety of obstacles. In 1963, an agreement on the association (or the Ankara Agreement) was signed, which became the framework document in the relations between Turkey and the EEC, and later the EU. This document suggested three stages of integration: preliminary, creation of the customs union, and final stage, i.e. full membership.

In 1987, Turkey submitted an official application for membership in the European Economic Community. Although the European Commission confirmed Turkey's current status of associate member, it rejected the opportunity of providing the country with the status of a full-fledged member. According to the explanations provided by the EEC officials, Turkey was not granted full membership due to three key reasons: its unsatisfactory economic and political position, tensions in relations with Greece (aggravation occurred with the 1987 incident with a Turkish survey ship coming near the aquatic border of Greece, which almost caused full-scale hostilities between the two states), and the conflict with Cyprus (Turkey was the only country officially

recognizing the sovereignty of the separatist Turkish Republic of Northern Cyprus, which led to conflicts with the Republic of Cyprus claiming this territory to be its historical lands) (see Voigt, 2012).

In 1996, when the free trade agreement was finally transformed into the creation of the customs union, thus completing the two initial stages of the association, full membership became and still remains just a rather distant prospect.

The claim of the Copenhagen criteria by the European Union in 1993 once again drew attention to the critical need for structural reforms in the Turkish state. Those criteria that have been already mentioned before can be divided into the following groups (see Guerin and Stivachtis, 2011):

- In the political sphere: sustainable democratic and legal institutions in order to ensure respect for human rights, which also involves the rights of ethnic minorities, abolition of torture, etc.;
- In the economic sphere: developed market economy, suggesting the liberalization of prices and the system of international trade, as well as creation of the legislative framework for property protection.
- In the cultural sphere: commitment to the values of the united Europe.

However, the ruling circles of Turkey did not immediately realize the need to fulfill the Copenhagen criteria for EU membership. Only the decision taken at the Helsinki Summit in 1999, when Turkey was named among the candidates for EU membership, was a turning point with regard to the issue of economic reforms performed by the Turkish elite. In 2001, amendments to the Constitution were developed as well as nine packages on harmonization, one of which was truly revolutionary as it recognized the existence of ethnic minorities (Kurds) and allowed TV and radiobroadcasts in Kurdish, as well as teaching in Kurdish in private schools. The reform process was continued and intensified with the coming to power of the Justice and Development Party (AKP) in 2002 (see Hale and Ozbudun, 2009).

Such strenuous efforts of the Turkish government, and, moreover, the results of these reforms have not gone unnoticed - on October 3, 2005, the EU decided to start negotiations with Turkey. This event was a triumph for the Justice and Development

Party that proved that its ability to fulfill the dream of the Turkish state and people, who showed support for the ruling party and its intention of the country's accession to the European Union. In 2004, the idea of Turkey's accession to the EU was supported by more than 70% of the population. Subsequently, however, this figure started steadily declining, and in 2010, it was less than 40% (see Yesilada et al., 2013), which can be primarily explained by the slowdown in the process of domestic reforms, as well as by the uncertain prospects of accession to the EU.

In 2009, the President of Turkey, A. Gul, mentioned the possibility of the "Norwegian scenario" of the development of the Turkey-EU relations. Norway is not a member of the EU, but makes part of the Schengen zone, implementing reforms in line with the EU policies and adhering to the European standards and norms. According to him, the main point for Turkey is not the fact of joining the EU, but the change of the Turkish state in accordance with the principles of the EU (see Tocci, 2011). In 2010, the head of the Turkish delegation for the negotiations on accession to the EU E. Bagis offered the EU member states to hold a referendum on the question of Turkey's accession to the EU. However, the referendum has not been held yet.

Thus, Turkey's accession to the EU is on the one hand desirable for both sides due to the geopolitical situation, but, on the other hand, negotiations on the matter meet a number of obstacles arising from the historical, economic, social and political problems of the Turkish state.

3.3 State-of-the-art: Turkey and the EU

The first studies trying to assess the state of economic relations between Turkey and the EEC countries and to evaluate Turkey's prospects for European integration (see Shorter et al., 2011) emerged in the mid-1960s., i. e. after the country had received the status of associate member. A few years later, with the active development of bilateral relations, the problem of economic relations between Turkey and the EEC (EU) gained coverage in numerous publications. Meanwhile, a particular feature of almost all studies was that they were dedicated to a comprehensive analysis of relations between Turkey and the EU, with a focus on the political relationship between the parties, and paid

weaker attention to the analysis of the component of economic cooperation. In 1999, the study of M. Ugur was published ("The European Union and Turkey: An Anchor/credibility Dilemma"), but at that time, the Republic of Turkey had not received a candidate status yet. Later works such as Clesse's "Turkey and the European Union: 2004 and Beyond" or "Turkey's Accession to the European Union: Political and Economic Challenges" by Akçay and Yilmaz provide an analysis of the changes in the Turkish economy under the influence of the harmonization process, which started after gaining this status, as well as the estimates of adequacy of those changes in terms of the EU.

An essential part in the analysis of the subject is played by the annual reports issued by the European Commission on Turkey's progress on the way to EU membership (Turkey Progress Reports), as well as the Pre-accession economic programs of the Republic of Turkey (Katılım Öncesi Ekonomik Programları) developed by the State Planning Organization of Turkey and approved by the Supreme Council. If, in the first case, the European Commission experts estimate the overall level of harmonization achieved by the national economy and completeness of implementation of the set of specific targets for its deepening, the latter contain the official version of the Turkish side concerning the assessment of the current state of the economy, advances in the field of harmonization, and the economic problems, solution of which will be the main goal of work within the process of European integration. The problem of the analysis of regular progress reports is connected with multiple changes in their structure associated with the revision of the priorities of the European Commission and the assessment system during the period analyzed.

As of today, the relations between Turkey and the European Union in the field of Turkey's integration as the EU's full-fledged member remain strained. Despite of the fact that Turkey has been able to achieve significant progress on the way toward its accession to the European Union, there are still many obstacles to the effective implementation of those processes, and some of the current EU member states actively oppose Turkey's accession due to their fear that it would lead to the aggravation of negative processes in the Union. For instance, major rivals of Turkey's accession to the EU are France and Austria. Those member states have made changes to their national legislation, so that national referendums could be held with regard to the possibility of

Turkey's accession as a new full-fledged EU member state. A key factor driving such position of the French and Austrian authorities is the unresolved Cypriot issue. As Cyprus is a major offshore center, the financial sectors of Austria and France have close relations with Cyprus, and deterioration of bilateral relations could bring harm to both states' economies. However, most importantly, Cyprus joined the European Union in 2004, and therefore the protracted conflict between Cyprus and Turkey over the territory of Northern Cyprus makes the European integration prospects rather unreachable for Turkey as of today due to the fact that Cyprus receives full support from other members of the all-European community. Moreover, Cyprus undertakes efforts to block the process of negotiations for the purpose of not allowing Turkey joining the European Union as its full-fledged member state (see Hale and Ozbudun, 2009).

The position of Cyprus with regard to Turkey's accession to the EU has remained the same throughout the entire process of negotiations. In 2006, Cyprus blocked several chapters of Turkey's negotiations for accession with the European Union. Due to this, the process of negotiations was in fact suspended, as Turkey was unable to open any other new chapters in the process of negotiations with the European Union. In 2013, Turkey undertook measures to renew the negotiations process, as it claimed the blockage of chapters by Cyprus to be illegal and not complying with the principles established within the European Union. However, the EU rejected those claims due to which rumors emerged that Turkey would completely stop any further initiatives to obtain the official membership status, and the issue of Turkey's accession to the European Union would remain frozen (see Strielkowski and Glazar, 2014).

Due to the lack of chapter opening, and thus due to the suspension of Turkey-EU bilateral negotiations for Turkey's accession to the European Union, in 2011, the European Union adopted the so-called Positive Agenda governing the EU-Turkey bilateral cooperation and focusing on the common interests of both sides. This document was primarily destined to defreeze the stagnated process of negotiations, however, it still didn't offer any substantial progress from Turkey in terms of obtaining the status of EU member state. To the contrary, the Positive Agenda again stressed that intensified dialogue needs to be held in the field of political reforms, visa-free regime, free movement of capital, development of the customs union. The positive Agenda also

dealt as well with those negotiation chapters which were blocked by Cyprus. However, no provisions were stipulated with regard to how the negotiation process could be defrosted, as there were no changes in the Turkey-Cyprus controversies. Although the Positive Agenda didn't provide for any advancement of the process of Turkey-EU negotiations for Turkey's accession to the European Union, this document was and still remains very important from the perspective of attempts to give a new impetus to the cooperation between the European Union and Turkey. In case that some prospects could be achieved for Turkey in terms of its accession to the European Union in the future, the Positive Agenda could play an important role as the basic act for all subsequent actions in this field (see Strielkowski et al., 2014).

In 2013, the situation with the bilateral negotiations between Turkey and the European Union again worsened. On one hand, the Turkish officials declared their desire to terminate the negotiations and obtain full membership by the year of 2023, otherwise Turkey would finally withdraw from the process of negotiations, and would stop its European integration alternatives. However, Germany declared that it would not waive its veto to defreeze the currently frozen chapters in the Turkey-EU bilateral negotiations for Turkey's accession to the European Union. Moreover, another leader of the European Union, France, stated that no negotiations would be renewed with Turkey until the end of the European Parliament elections to be held in July 2014. In addition to the aforementioned negative factors preconditioning such an attitude on the part of the European Union, the new wave of negative reaction of the European authorities was caused by the 2013-2014 mass protests in Turkey which were suppressed by the government of Turkey. Opponents of Turkey's accession to the European Union claimed that the Turkish government roughly violated human rights and freedoms, suppressed the free media, and made a number of other violations incompatible with the democratic principles and approaches promoted within the European community. As a result of such position of the European Union, the level of support of European integration drastically fell in Turkey, from over 66% in 2013 to 40% in 2014. Thus, the bilateral negotiations have not yet been renewed, and the future of this process remains very doubtful taking into account the current relations between the European Union and Turkey with regard to the issue of Turkey's accession (see Strielkowski and Glazar, 2014).

Another important aspect to be noted in the context of the current state of Turkey-EU relations is the negotiations on the issue of visa liberalization. Despite of the fact that the visa liberalization process has long been promoted by the European Union as a key stage of deepening of bilateral cooperation with Turkey, as of today, the EU has not yet cancelled the visa regime for the Turkish population. The official negotiations between the EU and Turkey were launched in 2012, but have not much progressed since then. This is further adding to the tensions in the bilateral relations between the European Union and Turkey, and contributes to further slowdown in the process of Turkey's accession to the European Union. The latest achievement in this field is the readmission agreement signed between Turkey and the European Union in 2013, and the so-called Roadmap towards the visa-free regime. As of today, those documents are rather declarative, but they should play an important role in the visa liberalization process in the near future (see Strielkowski and Glazar, 2014).

Overall, when analyzing the current state of the EU-Turkey relations in the field of Turkey's accession to the European Union, it is worth noting that the protracted negotiations have finally been suspended, and the idea of Turkey's European integration has lost part of its followers in Turkey. In the European Union, the country finds powerful opposition to its accession which is due to a number of differently vectored reasons. A major obstacle on the way to Turkey's member status in the EU is the country's conflict with the Republic of Cyprus over the territory of Northern Cyprus. As Cyprus is a valid member of the European Union, it tries to block any and all Turkey's attempts to reach progress in the accession process.

Having investigated the key milestones in the development of Turkey-EU bilateral relations in the field of Turkey's accession to the European Union as a full-fledged member, and the current state of those relations, in the next chapter of my thesis, I would like to analyze in detail the advantages and disadvantages that the accession to the European Union may in the long run give to Turkey.

4 Advantages and disadvantages of Turkey accession to EU: an empirical model

As Turkey has long been seeking the status of member state in the European Union, it is important to define the key driving factors which promote the country's authorities' desire to achieve membership in the EU, even despite of the constant refusals on the part of the Union. Obviously, the Turkish political leaders believe that accession to the European Union would provide the country with great benefits, and would allow further strengthening its economic development, national security, etc. Cooperation with the European Union is definitely important for Turkey in both economic and political terms, and therefore completion of the integration process is considered to represent a great opportunity to build up even further deeper ties mutually beneficial to both sides.

In this chapter of my thesis, I would like to investigate in detail the potential advantages and disadvantages of Turkey's accession to the European Union. I will analyze those factors from the perspective of different vectors of the Turkey-EU relations in order to discover how different processes can affect different fields of Turkey's economy, politics, and social sphere. I will also compare the prospective advantages and disadvantages of Turkey's completion of the European integration process for the purpose of evaluating the real outcome of the country's potential accession to the European Union as its full-fledged member.

4.1 Research hypothesis

Based on the literature review and analysis of Turkish-EU relations, the following research hypotheses have been formulated:

Hypothesis #1: The accession to the EU provides Turkey with access to new markets, and is aimed to build a strong economic relationship between Turkey and the EU in the long run.

Hypothesis #2: Turkey plays a fundamental role as a bridge to the Muslim world, also in the relationships between the EU and African and Asian countries.

Hypothesis #3: Accession to the EU will ensure free movement for Turkish workers, which might be a solution to the aging problem in the EU.

Hypothesis #4: There is a strong relationship between economic growth and Foreign Direct Investment (FDI), thus the accession to the EU will provide Turkey with a substantial inflow of FDI to its economy.

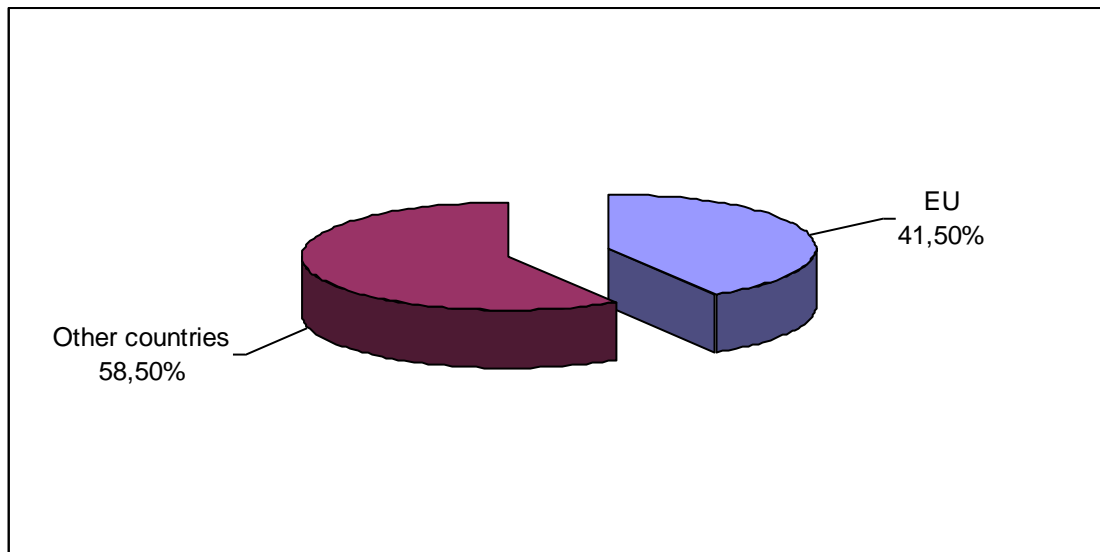
Further down this thesis, I will attempt to verify or to reject these hypotheses based on the analysis of the available research literature, statistical sources and own implications and reasoning. In addition, I will run an econometric model of the interdependence of economic development in Turkey and FDI to test for the causality and make implications for the case of Turkish EU accession.

4.2 Advantages of Turkey's accession to the European Union

When investigating the advantages of Turkey's potential accession to the European Union, it should be understood that the European integration processes are differently vectored and are not limited only by one sphere of mutual relations. Therefore, for the purposes of my thesis, I would like to analyze those advantages in three key fields: economic, political, and social. This would allow drawing comprehensive conclusions with regard to how European integration may affect the Turkish state as such, its economic development and geopolitical sovereignty, the wealth and national identity of the population, etc.

First of all, it is worth analysing the economic side of the European integration's positive effects for Turkey, as national economy is the basis for any state's political independence and high positions in the international arena. Here, it is worth understanding that Turkey has well-developed international relations with the European Union, and the mutual cooperation between them is very advantageous to the country, and holds a very high place in its activities.

Figure 1:European Union's share in Turkey's exports, as of 2013

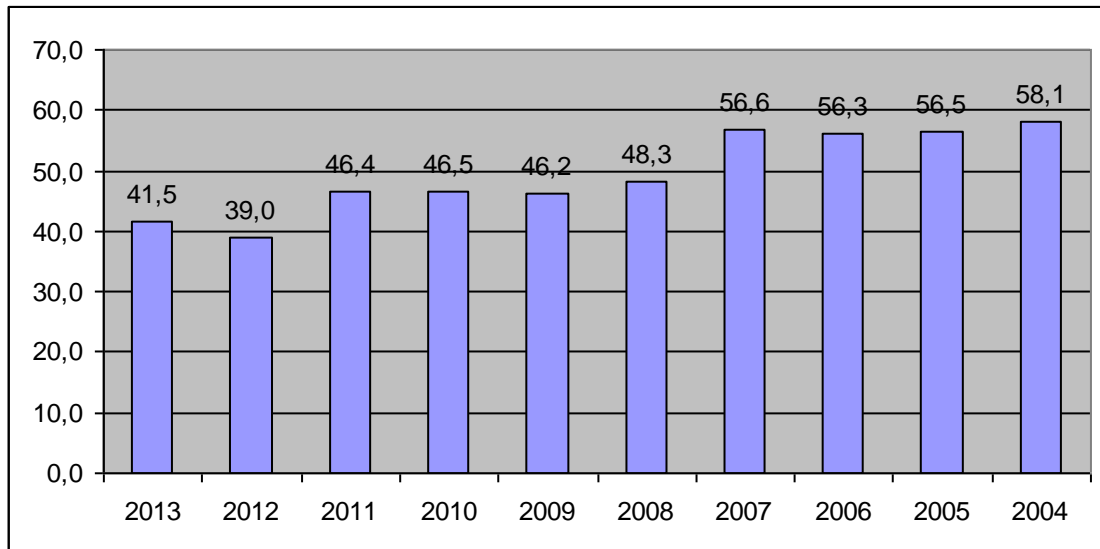


Source: Turkish Statistical Institute (2014)

As we can see from Figure 1 above, the European Union in aggregate accounts for over 40% of Turkey's total exports. Such a high share of the EU testifies that it is a major partner ensuring a significant part of Turkey's total income generated from its foreign trade activities. Turkey mainly exports textiles and clothing, and also household appliances, motor vehicles, and other groups of products. Even though Turkey's exports to the European Union are already large as of today, those figures can even further be increased in the case of Turkey's completion of the European integration process. In case Turkey finally obtains membership in the European Union, the country will be granted even larger access to the European markets. Turkish producers of different goods will obtain greater opportunities to expand their activities to the European market thanks to their lower prices as compared with the average EU level. The low prices combined with high quality are the key competitive advantage which may help promote Turkish goods among European customers. For instance, products of the textile sector or agriculture in Turkey have a high level of quality, and therefore can successfully compete with the European ones in case of the total elimination of all barriers. Moreover, Turkish producers would be able to participate in the various economic development programs and sector initiatives promoted within the framework of the European Union's economic development. Also, subsidies granted to European manufacturers would be proportionally distributed among Turkish producers as well. Thus, Turkey's accession to the European Union would provide the local companies

with greater access to funds both as subsidies and loans, which would significantly ease the funding process, and would raise the capital of Turkish companies (see Tocci, 2011).

Figure 2: Dynamics of the European Union's share in Turkey's exports (in %)



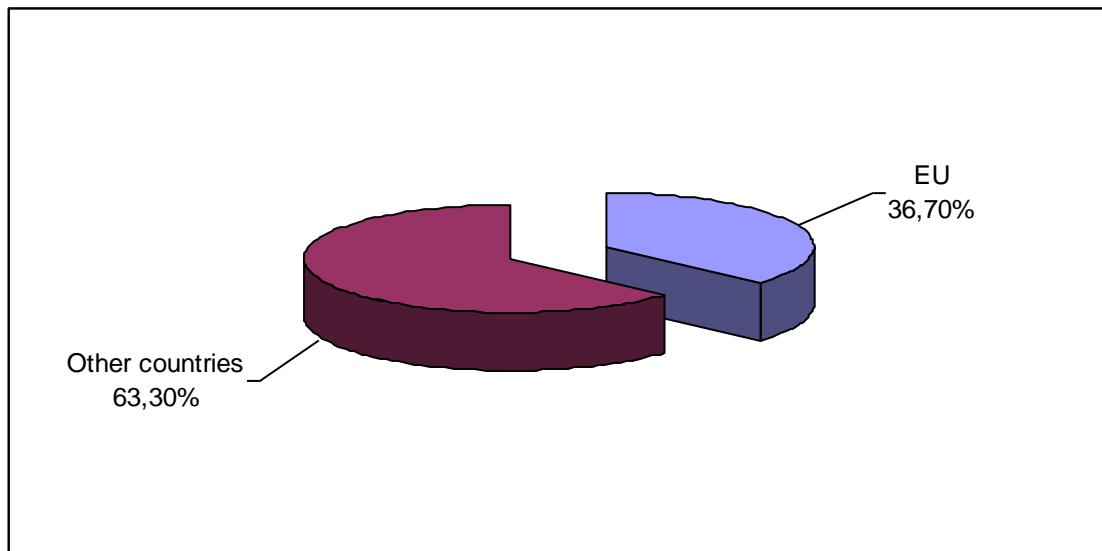
Source: Turkish Statistical Institute (2014)

Figure 2 above illustrates the dynamics of the European Union's share in Turkey's exports in the period from 2004 to 2013. As we can see from the chart, the recent dynamics have shown decline as compared with previous years. Eventually, such a decline in the European Union's total share in Turkey's exports correlates well with the slowdown in the Turkey-EU negotiations for Turkey's accession to the European Union. Still, the share of 41.5% is very high, and therefore it testifies the great prospects Turkey would have in economic terms in case the country officially joined the EU.

An important characteristic of the Turkish economy is the role of the agricultural sector in the overall employment and formation of GDP in the country. However, even despite of the sector's crucial role for the Turkish economy, the level of technologies used in agricultural production is rather low and obsolete, due to which the extensive use of resources leads to the deterioration of their quality, and thus lower yield generated from their use. There have already been offers from the European Union to provide subsidies to the Turkish state for the purpose of restoring and further raising the quality of arable lands, but they have not yet been implemented (see Cengiz and Hoffmann, 2013). If Turkey was a full-fledged member of the European Union, the

country's farmers could effectively participate in all of the EU's agricultural sector programs, which would allow not only preserving the quality of natural resources, but also further promoting their intensive use. Also, similarly to the industrial producers, companies in the agricultural sector would gain access to finance from the European funds, which would make it possible for them to generate higher profits through the use of new technologies, and thus intensification of production.

Figure 3: European Union's share in Turkey's imports, as of 2013



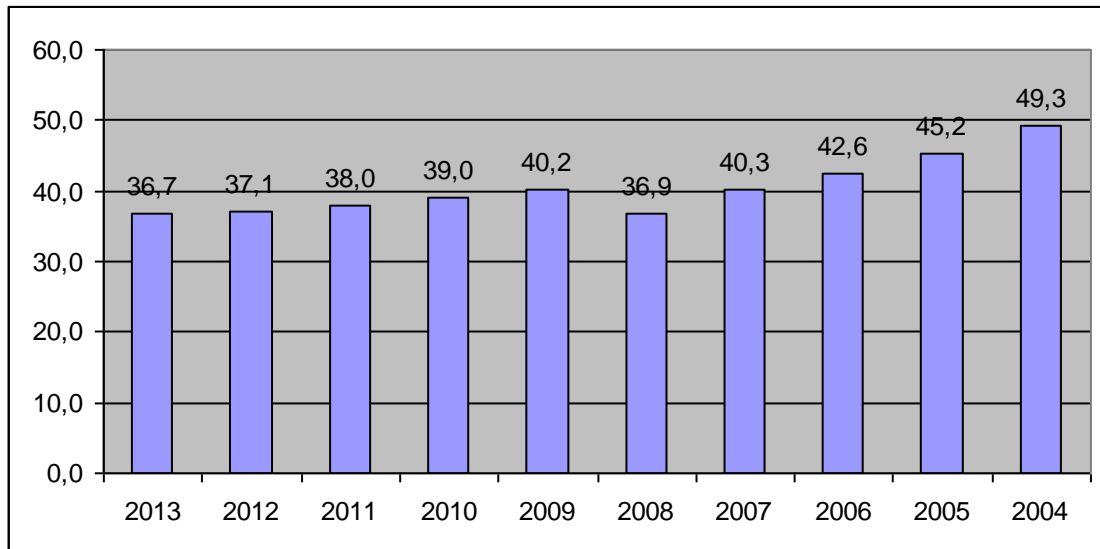
Source: Turkish Statistical Institute (2014)

As one can see from Figure 3 above, the European Union is also a major partner for Turkey in terms of imports. Overall, the EU's share in Turkey's import is 36.7%, which testifies that Turkey is much dependent on the European products. This is predefined by the close geographical location, great logistics, high quality of European goods, and the openness of the Turkish market. On the one hand, Turkey's accession to the European Union would lead to further greater openness of the country's domestic market to powerful European corporations, which would definitely represent a considerable threat for smaller local companies. However, at the same time, this would ensure greater competition, and thus greater level of customer service (see Mulhearn, 2008).

Also, it is worth understanding the social aspect of advantages in this respect. In case of Turkey's membership in the European Union, the local population would gain

full-scale access to the high-quality European goods at lower prices. This would be a major advantage for the population in terms of the ratio between quality and prices, and people would definitely benefit from such accession in this respect (see Arikan, 2006).

Figure 4: Dynamics of the European Union's share in Turkey's imports (in %)



Source: Turkish Statistical Institute (2014)

Figure 4 above demonstrates how the European Union's share in Turkey's imports changed in the period from 2004 to 2013. As we can see, those dynamics are very similar to the ones existing in the field of Turkey's exports to the EU, and in my opinion, they are as well connected with the overall deterioration in the relations between Turkey and the European Union due to the slowdown in the negotiations process.

In case of its full-fledged accession to the EU, Turkey would also get an opportunity to import the newest technologies available in the European Union at lower prices. Such technologies are required for the purpose of granting a powerful impetus to Turkey's national economy through the intensification of its industrial sector. Thanks to the technologies imported from the European Union, Turkey would be able to implement its large-scale economic reforms much faster, and therefore the country would significantly benefit from those processes (see Voigt, 2008).

Also, it is worth noting that the accession to the European Union would provide the Turkish economy with a certain degree of stability in terms of its foreign trade with

other countries, as the Turkish state would thus follow the common European policies, and would act together with other countries in their expansion to foreign markets (see Rumford, 2001).

Table 1: Structure of foreign direct investment inflow to Turkey, as of 2012

Rank	Country	Share in FDI inflow
1	United Kingdom	19,80%
2	Austria	14,70%
3	Luxembourg	12,40%
4	The Netherlands	11,70%
5	Germany	5,40%
6	Malaysia	4,50%
7	Switzerland	4,50%
8	The United States	4,30%
9	Azerbaijan	3,30%
10	Lebanon	3,10%

Source: Turkish Statistical Institute (2014)

Table 1 above shows the Top 10 countries in the structure of foreign direct investment inflow to Turkey in 2012. As we can see from the data presented in the Table, the first five positions in this ranking are held by EU member states, which in aggregate account for 64% in the total FDI inflows to the country. This shows how much Turkey is dependent on the European Union in terms of the investment placed in the country's national economy. It is worth understanding that foreign investment is a prerequisite for the effective functioning of the Turkish economy, as this source of funding allows implementing large-scale projects both in the public and private sectors, significantly raising the level of employment through creating new jobs, and overall boosting the economy through the implementation of innovative projects. In case of Turkey's accession to the European Union, the country's legislation would be fully harmonized with the regulations and standards of the EU, and therefore European corporations would not only get guarantees of their trouble-free activities on the Turkish market, but would also get substantially eased conditions of doing business. This would undoubtedly raise their interest in the Turkish market, and therefore would promote further increase in foreign direct investment flows from the European Union could be expected (see Tocci, 2011).

Turkey's accession to the European Union would be likely to lead to the country's participation in the Eurozone, and thus substitution of its national currency with the single European currency, the euro. The Turkish lira itself is much more vulnerable to negative external effects in terms of the exchange rate fluctuations, as all such fluctuations to a large extent depend on the country's powerful economic basis. The euro is backed by the European Union's stable economic background and well-thought financial and economic policies implemented on the level of the EU's governing bodies. Therefore, in case of its accession to the Eurozone, Turkey would be less vulnerable to the financial market shocks, and the stabilization of the national currency's exchange rate would overall contribute to the faster and more stable development of the country's national economy (see Massai, 2011).

Taking into account how hard the 2008 global financial and economic crisis struck the Turkish economy, it is also worth understanding that the country's accession to the EU would provide it with a far more stable ground in terms of its financial and economic condition. For instance, the example of Greece shows that, when the country stood on the verge of default due to the disastrous consequences of the 2008 global crisis, the other EU member states in fact saved it thanks to the bailout plans provided by the efforts of all EU countries. In case Turkey hadn't been member of the EU back then, the country would have inevitably fallen into default, and would have faced economic collapse. Therefore, if Turkey in the long run joins the European Union as its full-fledged member, the country will be protected against negative economic effects of global crises thanks to the fact that the EU member states implement reallocation of funds depending on each country's current financial conditions and need for assistance. This would be important in order to provide the local economic subjects with higher confidence in the national economy's stability, and thus to promote their more efficient activities on both the domestic and foreign markets (see Wendicke, 2008).

Another particularly important aspect of Turkey's integration to the European Union is the issue of energy security. As Turkey's economy is much dependent on energy, and has an ever-growing need in power resources, it would be important for Turkey to ensure a stable source of energy supplies. Within the European Union, its member states tend to implement large-scale policies destined to reach a higher level of energy security. Namely, such policies include diversification of power sources and

power suppliers, and promotion of the use of alternative energy. Turkey's participation in the European Union's energy programs would obviously provide the country with great opportunities to reach a higher level of energy security, thus ensuring uninterrupted energy supplies for both the needs of its manufacturers and population (see Boomgaarden and Wüst, 2012).

The field of national security is another important sphere of Turkey's existence and activities which could win significant advantages from the country's accession to the European Union. Although Turkey has long been member of NATO, and thus has been participating in the collective security programs implemented in the EU member states within the framework of NATO's activities, Turkey's accession to the European Union would help even further increase the level of the country's national security, and reach its higher integration with the European states in terms of the military power. This is important for the purpose of ensuring Turkey's stable geopolitical positions as the leader among the Middle Eastern states. The collective security mechanisms implemented within the framework of the European Union would provide Turkey with even greater protection against all possible external threats (see Strielkowski and Glazar, 2012).

An important disadvantage of Turkey's current relations with the European Union is that the visa-free regime has not yet been implemented for the Turkish people wishing to voyage to the EU. Due to this, the liberty of their movement is restricted, as traveling to the European Union currently requires substantial amounts of funds to be spent. In case of Turkey's accession to the European Union, the free movement of people across borders within the European Union would be granted. On one hand, this would be beneficial to the Turkish people, as their expenses for traveling abroad would be reduced, just as the technicalities of the process. On other hand, this would also allow significantly raising the social mobility of Turkish employees, and thus reducing the overall level of unemployment in the country. For instance, Turkish employees and unemployed people would become able to seek jobs in the European Union without any restrictions, thus freeing a number of vacancies in the country which could be filled with other local workers. At the same time, the wealth of such people would rise as they would become able to find better-paid jobs in the European Union (see Hale and Ozbudun, 2009).

Next, in social terms, it is worth noting that, with Turkey's accession to the European Union, the Turkish people would obtain a far easier and wider access to the European sector of education services, thanks to which they would get better education, and again, this would raise the overall level of social capital mobility. Also, the level of health services in Turkey would win thanks to the implementation of the EU healthcare programs destined to cover the population with a much higher level of medical services provided (see Guerin and Stivachtis, 2011).

Finally, it is worth noting that Turkey's accession to the European Union as its full-fledged member state would allow preserving the principle of secularity currently predominant in the Turkish state, and would significantly limit the impact of political currents promoting the ideas of Islamism. Also, European integration would allow Turkey raising the level of human rights protection, which is currently a substantial issue in the Turkish, which has many times been stressed by the EU authorities in the course of the negotiations with Turkey (see Tocci, 2011).

In political terms, Turkey would win thanks to the redistribution of responsibilities between the local and all-European governing bodies. This would allow ensuring a much higher level of transparency in the political activities and decisions implemented on all levels. Also, thanks to the regulation of a wide number of issues from the single center, Turkey would get a great opportunity to reduce the overall level of corruption in the country. The European Union member states constantly hold high positions in global corruption ratings, which are achieved thanks to the wise policies of counteraction to corruption which are implemented within the framework of the European Union's governing bodies' activities. Corruption is one of the key threats the Turkish economy on the way toward prosperity, and its elimination is one of the top-priority tasks for the purpose of reaching the maximum degree of liberalization of Turkish national economy. In case of the country's completion of the integration process with the European Union, Turkey would be able to participate in the aforementioned anti-corruption programs, which would obviously allow effectively managing the national programs implemented in this field (see Tekin, 2010).

Also, it is important to note that, by joining the European Union, Turkey would be able to implement its foreign policy within the mutual mechanisms of foreign relations applied by all of the EU member states. This would allow significantly raising

the country's levers of impact in the international arena, thus providing it with even higher weight in the eyes of both its partners and competitors. The synergic effect reached through the implementation of such common foreign policies would allow gaining substantial benefits not only in political, but also in economic terms, which would bring significant yield to Turkey's national economy (De Vreese, Boomgaarden, and Semetko, 2008).

Thus, overall, it can be stated that the advantages of European integration are substantial for Turkey, and therefore it is obvious why the country actively participates in those processes. However, in addition to its benefits, Turkey's completion of its European integration processes would also represent considerable threats for the Turkish state in different respects, which is predefined by the negative aspects and disadvantages of European integration. In the next chapter of my thesis, I would like to focus on the issue of disadvantages of Turkey's accession to the European Union as its full-fledged member state for the purpose of evaluating the prospective aggregate outcome of European integration for Turkey.

4.3 Disadvantages of Turkey's accession to the European Union

When analysing the disadvantages of the European integration processes for Turkey, one should never forget that, although granting high benefits in all fields of mutual relations, such integration processes also have considerable disadvantages which should be thoroughly analysed in order to understand the overall outcome of the implementation of the European integration scenario for Turkey. Just as the advantages for the Turkish state, the disadvantages of European integration should be investigated as well from the perspective of the various economic, political, and social aspects, in order to understand the complete possible outcomes of the country's accession to the European Union.

As it has already been stated earlier in this thesis, in the economic field, Turkey may significantly benefit from the completion of the country's European integration process. This is mainly preconditioned by the vast liberalization of economic relations with the European Union, and further greater bilateral openness of the domestic market.

Prospectively, such openness allows increasing the overall level of competition in the Turkish economic sector, thus promoting improvement of the goods and services provided to the Turkish customers. However, in reality, liberalization of Turkey's market for the European corporations represents a potential major threat for the country's economy.

Major European transnational corporations are much more powerful than the local Turkish manufacturers in all respects: they have greater funding, more developed technologies, have large customer bases, and so on. Thanks to this, they are able to gain significant benefits on the economies of scale. If such corporations obtain a totally free access to the Turkish domestic market, they will have far greater opportunities to conquer it, taking into account the high quality of products offered. Indeed, as it has already been said, Turkey's products are quite competitive in some fields of the economy such as the industry of textiles or household appliances. However, in other industrial sectors, Turkish companies considerably lag behind the European Union's leading transnational corporations. Moreover, even in the industry of textiles and household appliances, in case of Turkey's accession to the EU, European companies would significantly reduce the share of the Turkish manufacturers on the domestic market thanks to the enlargement of the range of products offered to the population. Potentially, that could lead to the closure of part of Turkish enterprises (especially on the sector of small and medium enterprises), and thus to the overall deterioration of the economic conjuncture in the country (see Voigt, 2008).

Moreover, it is quite doubtful whether Turkish manufacturers would be able to effectively compete on the European market with major European producers of different types of goods. As of today, only the products of the textile industry manufactured in Turkey indeed look prospectively competitive on the European Union's market thanks to their great quality-to-price ratio. However, products manufactured in other spheres of the Turkish economy are much less competitive, and would most often lose to the European analogues in terms of both price and the level of quality. Due to this, Turkish products would be likely to lose competition to the goods offered by European corporations on both the domestic Turkish market and markets of the European Union's member states. In this case, this would mean closure of jobs for the Turkish population

and substitution of local production by imports from the European Union. The Turkish budget would also lose due to the decrease in taxes paid in this case (see Tocci, 2011).

Next, it is worth understanding that, in case of Turkey's accession to the Eurozone, the country would have to adopt the euro in replacement for the Turkish lira as its only official currency. On one hand, the Turkish lira is much more volatile and dependent on external market conditions than the euro, and is overall much more vulnerable to all possible shocks, so the adoption of the euro could be regarded as positive. However, on other hand, the adoption of the euro would mean that Turkey would be deprived of a number of its own significant monetary mechanisms to a large extent predefining the country's ability to effectively manage its national economy. The monetary supply in Turkey would be completely dependent on the European Central Bank, and that would bring Turkey to a large economic and financial dependence on the European Union (see Tekin, 2010).

The 2008 global financial and economic crisis showed that crisis in the Eurozone is inevitable, if one of its countries undergoes hard times, and the exchange rate of the euro tends to gradually fall in those circumstances. A country with its own national currency has much wider opportunities to regulate its exchange rates using the national reserves, letting the exchange rate flow, purchasing or selling currencies through public institutions, and so on. In the Eurozone, one country's failure to comply with the established principles and standards leads to a chain reaction of negative events to the rest of the Eurozone countries. Therefore, it can be said that, in case of Turkey's accession to the European Union, the country would definitely lose part of its sovereign mechanisms implemented in order to regulate its monetary policies, and thus its economic development in general (Yesilada, Rubin, and Rubin, 2013).

In the financial sector, Turkey would be forced to participate in the common financial policies implemented by the European Union member states. Namely, Turkey would be forced to participate in the bailout plans mutually provided to those European States which are undergoing periods of deep stagnation, and therefore require substantial funds on the part of their EU colleagues. This would be ineffective for Turkey, since, as of today, the country's economy is self-sufficient, and can cover well all its internal needs. Therefore, it would be likely to remain stable, and wouldn't require assistance from the EU. To the contrary, countries such as Greece or Portugal

survive harsh times, and overcome the consequences of the 2008 global financial economic crisis, and therefore they would be more likely to demand assistance from other European member states, and namely from Greece. The allocation of such resources to other states would be detrimental to the Turkish economy, and would make the state spend much more on the bailout plans, without being able to focus such resources on the needs of the local population (Guerin and Stivachtis, 2011).

In the financial sector, the Turkish economic subjects could get access to cheaper borrowed funds, which would seemingly be beneficial to the Turkish companies, but would in fact represent another major threat for its national economy. For instance, cheaper loans which would become available to Turkish companies in the case of the country's accession to the European Union as its full-fledged member would potentially be very dangerous, which is testified by the example Greece. Both the Greek public and private sectors used to overuse loans. The 2008 global financial and economic crisis placed the country on the verge of economic bankruptcy and political default. In case of Turkey's accession to the European Union, the same risk would also exist in the context of overuse and the subsequent inability to repay such loans on the part of Turkish companies (see Mulhearn, 2008).

In case of Turkey's accession to the European Union, the visa-free regime would be established between Turkey and the European Union for all trans-border movements of people. In this case, there would be a threat that Turkish corporations would far more often use European workforce, namely for high managerial positions, due to their experience and powerful professional background. This would definitely be a negative process for Turkey's employees which would thus be forced either to seek jobs on less important positions and with lower wages, or even would be left with any job at all. Moreover, migration processes from countries such as Greece, Bulgaria or Romania, i.e. those EU member states which are not more developed than Turkey in economic and technological terms, would mean possible use of such foreign workforce as regular employees on many Turkish enterprises. This would bring to increased unemployment, and therefore not only to the deterioration of the Turkish population's living standards, but also to increased state budget expenditures, namely for the payment of unemployment benefits (see Wendicke, 2008).

Another major problem in social terms is the possible relocation of part of the refugee camps in the European Union to the territory of Turkey. This would potentially represent a major threat to Turkey's social sector, as the country would become a site of inflow of refugees. This would increase the tensions inside the Turkish society, and could also lead to an increase in the level of crimes in the country. Moreover, this would inevitably lead to increased government expenditures directed to the struggle against such crimes and payment of costs associated with the maintenance of the new refugee camps (see Tocci, 2011).

Also, the opened borders for the movement of people would probably lead to an increase in the outflow of highly qualified specialists from Turkey to the European Union, and namely to the so-called brain-drain processes. Turkish specialists in different fields would get an opportunity to find better paid jobs on the territory of the EU, and would therefore seek to leave Turkey for the purpose of gaining higher earnings. This would not only deprive Turkey of qualified professionals, but would also lead to an overall poorer situation with scientific development, research and engineering activities run in the Turkish national economy (see Arikan, 2006).

In the field of politics, and namely global geopolitics, Turkey's accession to the European Union could bring disadvantages to the Turkish state as well. First of all, it is worth understanding that Cyprus, Turkey's major geopolitical rival with which the country has an antagonistic ongoing conflict over the territory of the self-proclaimed separatist Northern Cyprus Turkish Republic, is a valid member of the European Union. Therefore, in case that Turkey becomes a full-fledged member of the EU, the country would be forced to cooperate with the Republic of Cyprus over a wide range of different issues in all fields of cooperation within the framework of the European Union. Namely, Turkey and Cyprus would be forced to participate in mutual economic and social development programs, and in programs of mutual policies in foreign relations. As of today, this seems rather impossible, and this would definitely require mutual compromises on the part of both Turkey and Cyprus. Taking into account the predominant position of Cyprus in the issue of Northern Cyprus due to the support of the EU member states, it is possible that Turkey would require negating its recognition of the independence of the self-proclaimed separatist republic of Northern Cyprus. As of today, Turkey is the only country which has recognized the independence of North

Cyprus, and therefore its abandonment of this position would inevitably mean Turkey's loss of its geopolitical influence in the region, and thus would lead to the deterioration of its reputation in the eyes of not only the EU member states, but also Asian countries struggling for the leading positions in the region (see Cornell et al., 2013).

Next, it is important to understand that the completion of Turkey's process of integration to the European Union would deprive Turkey of further opportunities to participate in any integration alternatives available in the Asian region. For instance, Turkey could potentially follow the vector of integration within the framework of the Shanghai Cooperation Organization together with the world's superpowers such as China and Russia. This would potentially be a great alternative for Turkey's economic and political development taking into account the close geographical location of Asian states involved in SCO. However, in case that Turkey finally completes its accession to the European Union, the country would have to ultimately abandon those alternative integration scenarios. This would lead to the deterioration in relations between Turkey and the Asian states. In this case, Turkey would be more likely to lose its leading positions in Asia to China and other regional leaders. Loss of Turkey's geopolitical influence in the Asian region would be much vulnerable to the country's overall positions in the international arena (see Boomgaarden and Wüst, 2012).

Finally, it is important to understand in geopolitical terms that the EU promotes peaceful resolution of the issue with Kurdish separatist movements on the territory of Turkey. As the EU stresses the need to resolve this issue, it is quite possible that, with Turkey's accession to the European Union, the EU would impose liabilities on the Turkish state to hold a referendum on Kurds' independence, with the separation of their territories from the sovereign lands of Turkey, as the EU promotes to the largest extent the principle of self-determination of nations. Of course, such a scenario of resolution of the issue with separatist Kurdish movements would undoubtedly be inappropriate for Turkey, and this could provoke major conflicts already within the European Union (see Akçapar, 2007).

Also, with Turkey's accession to the EU, the intensification of Islamist movements could be expected, as the official accession to the European Union would mean further secularization of the Turkish state, and thus would lead to the suppression of movements promoting the establishment of the sharia laws on the entire territory of

the country. This situation could provoke mass riots and street clashes between the supporters of Islamists and the supporters of European integration. Such protests could be supported and promoted by Islamist Asian states, which could even further destabilize the situation in Turkey. This should be taken into account, as such protests would require immediate and effective counteraction, and would probably imply significant economic consequences (see Tocci, 2011).

Overall, when evaluating the advantages and disadvantages of Turkey's prospective completion of integration process with the European Union, it is worth understanding that all and any integration scenarios assume both positive and negative effects, and there are no purely beneficial or disadvantageous integration alternatives due to the very essence of the integration processes. Thus, it is worth comparing the positive and negative outcomes of European integration for Turkey in order to understand the aggregate effects Turkey's accession to the European Union as its full-fledged member could bring to the country.

In my opinion, based on the findings of my analysis, it can definitely be said that the European integration alternative is definitely beneficial to the Turkish state in the context of comparison between the possible positive and negative effects. The economic, political, and social advantages potentially provided by the European Union to Turkey in the case of the country's ultimate accession to the EU exceed the possible risks incurred by Turkey to the completion of this integration scenarios, and therefore it can obviously be stated that continuing the ongoing negotiations with the European Union for the provision of membership status to Turkey is an important task of Turkey's foreign politics. By joining the European Union as its full-fledged member, Turkey would get an opportunity to significantly boost its economic development thanks to the far greater openness of the European member states' markets. Moreover, Turkey would be able to grant its energy security in the long-term period through the participation in mutual energy security programs. Collective security mechanisms implemented within the framework of cooperation in the European Union would allow granting a higher level of the country's national security. Finally, thanks to the accession to the European Union, Turkey would be able to further strengthen its geopolitical positions in the international arena.

4.4 Results of hypotheses testing

Hypothesis 1 can be confirmed. Indeed, Turkey's potential accession to the European Union will be likely to provide the country with great opportunities in economic terms. Namely, the completion of the country's integration process with the EU would allow Turkey obtaining a far larger and easier access to the EU member states' markets which are currently inaccessible due to Turkey's position as a non-member of the Union. Due to this, the country doesn't have free access to all markets, and is still subject to restrictions and limitations which are eliminated within the European Union. By gaining wider access to the European markets, Turkey would obviously become able to further deepen its cooperation with the European Union, thus building up closer partnership ties with the EU member states in terms of their mutually beneficial economic relations. Also, this would ease the inflow of investment to Turkey, as European investors would become more confident in the creditworthiness of the country being a member state of the European Union. However, it should be understood here that, together with the advantages for the Turkish economy, the country's integration with the EU would also impose considerable threats on its economic sector. Thus, the European manufacturers would gain far wider access to the Turkish market as well. As European corporations are much more powerful than the Turkish ones, and have larger financial resources, they would have much more effective levers to affect the competition on the Turkish domestic market through both price and non-price mechanisms. Therefore, this would pose under threat the Turkish local producers' effective market results, as they would have to face much more powerful competitors than before. Moreover, it is quite doubtful whether Turkey would be able to benefit so much from the wider openness of the European markets. This is mainly preconditioned by the fact that Turkey's manufacturers' products are generally weaker in terms of their quality and competitiveness than the same products offered by EU member states' residents. Thus, in case of Turkey's accession to the EU, there would be a major threat that most Turkish companies would lose competition on the domestic market, at the same time being unable to establish themselves as popular brands on the markets of the EU member states.

Hypothesis 2 can be confirmed. Indeed, Turkey is a bridge between the European Union and the Muslim world, and the country will be likely to play a great role

in the cooperation between the EU member states and the Muslim Asian and African countries, especially in case of Turkey's accession to the European Union. Turkey is an interesting example of an Islamic country which is completely secular and deprived of all signs of Islamism which is prosecuted, Turkish society is highly liberal and democratic, and the religion doesn't interfere in the field of public affairs. This is particularly important for building up close partnership ties with the European Union, and the European society doesn't accept any kind of discrimination, especially when speaking of religion and the practice of use of religion is state management is not welcomed in the Union. At the same time, in the Islamic world, cooperation between countries with the population sharing Islam tends to be much wider and much more effective than with countries where other religions are prevailing. This is a key factor of Turkey's successful relations with Northern African Arab states. At the same time, Turkey's geographical location between Europe and Asia allows the country effectively cooperating with the Asian states. Thanks to its unique expertise, Turkey would be able to profit much from its ties with both the Islamic world and Asian countries in the process of its integration with the European Union. This is predefined by the fact that the EU currently seeks greater economic expansion, and sees the Asian and North African markets as prospective growth areas which can be effectively filled by European companies. Turkey's involvement in those processes would allow not only further strengthening ties with all parties, but also gaining significant financial dividends.

Hypothesis 3 can rather be disapproved. The free movement of workforce within the European Union would definitely provide Turkish workers with an opportunity to move freely within the EU member states for the purpose of finding vacancies on the European labour market. As the greatest part of the workforce travelling abroad in search for better living or working conditions are young people, the greater inflows of workers from Turkey to the European Union would obviously be constituted by younger people, and therefore this would contribute to a change in the age structure of the EU. Such change would thus represent a tendency toward decline in the median age of the European citizens. However, it is worth understanding here that the number of people migrating from Turkey wouldn't be so high against the background of the total population of the European Union. Therefore, the young migrants from Turkey would be "dissolved" in the great European population, and the afore mentioned changes in the

overall age structure of the EU wouldn't be substantial. Therefore, this wouldn't help resolve the issue of ageing of the population neither in the short-term, nor in the long-term. Moreover, in my opinion, this problem can only be eliminated through the implementation of wise economic, social and demographic policies on the all-European level, and immigration cannot be an effective solution in this case. After all, it is worth understanding that, even if minor positive effects can be reached thanks to the inflow of immigrants in the short-term period, already in the mid-term perspective, the problems currently existing in the social and demographic fields will again negate all such positive advancements.

Table 2:Correlation between Turkey's economic growth and FDI inflows in 2003-2013

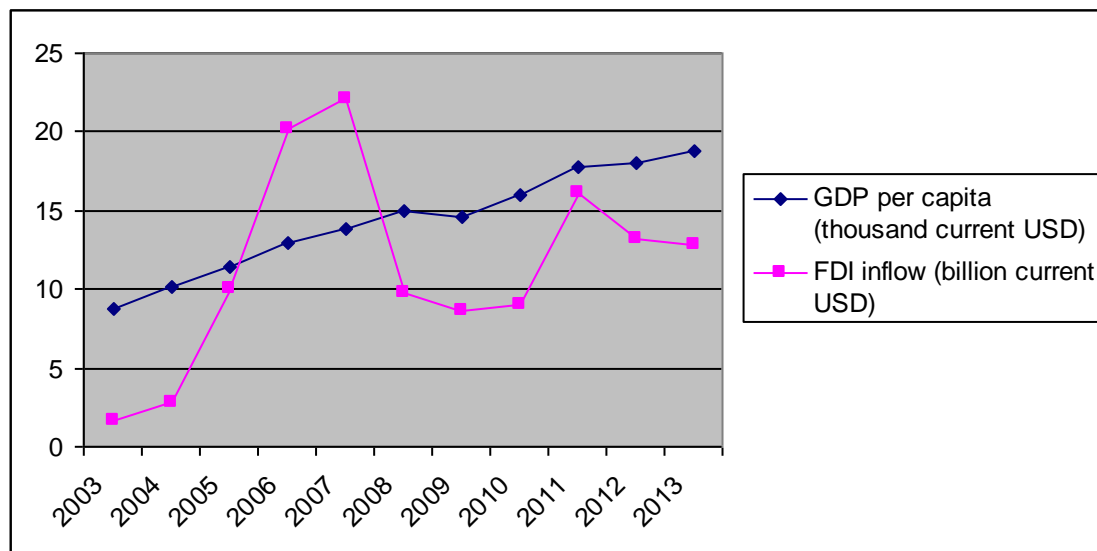
Year	GDP per capita (thousand current USD)	FDI inflow (billion current USD)
2003	8,8	1,7
2004	10,16	2,79
2005	11,39	10,03
2006	12,91	20,19
2007	13,88	22,05
2008	15,02	9,76
2009	14,55	8,63
2010	16	9,06
2011	17,78	16,17
2012	17,97	13,22
2013	18,81	12,87

Source: Own results based on materials of the Turkish Statistical Institute and the World Bank (2014)

Hypothesis 4 can be neither confirmed nor disapproved. On one hand, there is indeed a strong relationship between the level of a country's economic development and the inflow of investment to it. On other hand, it can definitely be stated that the level of foreign direct investment to Turkey would increase in case of its completion of the European integration process. However, this would be caused by a number of different reasons, in the first turn this would be achieved through the ease of investors' access to the Turkish market, and their higher confidence in the successful results of their business in Turkey. However, it may be achieved even without economic growth. At the same time, the correlation between the two indicators above, namely economic development and FDI, is not so obvious in order to say that Turkey's accession to the European Union would provide the country with greater foreign direct investment

thanks to its economic growth within the EU. This hypothesis can be justified through Table 2 and Figure 5 below.

Figure 5: Correlation between Turkey's economic growth and FDI inflows in 2003-2013



Source: Turkish Statistical Institute (2014); World Bank (2014)

As we can see from the information given on the charts above, in the period from 2003 to 2013, the curve of Turkey's GDP per capita which serves as the best index of the country's economic growth remained mainly positive, while the curve of foreign direct investment didn't have any prevailing tendency throughout the analysed period. Thus, the highest values of FDI inflows to Turkey were reached in 2006-2007 when those figures made up over 20 billion US dollars per year. However, afterwards, there was another peak, and again a decline in 2012-2013. This is in contrast to the indexes of economic growth shown during the same period which only tended to increase. Thus, for instance, as we can see from Figure 4 above, in 2012, the gap in correlation between GDP per capita and FDI inflows only widened, as those indicators showed differently vectored tendencies of changes. Thus, it can obviously be stated that the level of FDI inflows to Turkey in the analysed period was predefined not only by the country's level of economic growth, as investors may be interested in funding economies in a condition of slowdown, and may refrain from investing in economies currently showing a high growth level.

Therefore, it cannot be definitely stated whether Turkey's economic growth would indeed lead to increase in FDI after the country's accession to the European Union. However, in this case, Turkey's economic growth would definitely contribute to such increase, even though probably indirectly, while the greatest role would be played by Turkey's ability to attract investors using various economic and other means.

In order to test more deeply the hypothesis about the interconnection between Turkey's prospective accession to the European Union and the increase of foreign direct investment inflow to the country, the author has built the following econometric model:

$$\lg (\text{real gdp}_i) = \alpha + \beta_1 \cdot \lg (\text{fdi}_i) + \beta_2 \cdot \lg (\text{inf}_i) + \beta_3 \cdot \lg (\text{emp.rate}_i) + \beta_4 \cdot \lg (\text{trd}_i) + \beta_5 \cdot \lg (\text{rem}_i) + \varepsilon, \quad (1)$$

Where:

realgdp_i - the real value of Turkey's GDP

fdi_i - foreign direct investment (expressed in \$)

inf_i - inflation (in %)

emp.rate_i - employment rate (in % to the population)

trd_i - volume of trade expressed in \$

rem_i - remittances received by Turkish households (in \$)

We assume that the level of Turkey's GDP is a constant, and its value is determined by the levels of independent variables. Based on the research literature and on the theory, we assume the following impacts of the right-hand variables on the left-hand dependent variable: foreign direct investment (positive impact), inflation (negative impact), employment (positive impact), trade (positive impact), and remittances (negative impact).

Most econometric models measure growth explained by the stochastic growth models. Stochastic growth models are the modification of basic growth models with incorporated random shocks (in order to understand business cycles), such as technological progress, shock on the supply or demand side, etc. The best example of a stochastic model on the macro-level is the stochastic version of the Cass-Koopmans model (Romer, 2001). Stochastic growth models (the best example on the micro-level is Gibrat's Law) are characterized by the following features: (i) macro and/or aggregated

dynamics of the model, and (ii) no fluctuations. Their basic aim is to reproduce observed power-law distributions, derive growth dynamics, and allow for the fitting of real data.

The traditional outlook of any stochastic growth model is presented as a model with two deterministic components (exogenous growth and endogenous growth) and one stochastic component (random growth term ε). A model such as Gibrat's Law (the Law of Proportionate Effect) expressed in terms of a stochastic model has two basic assumptions: (i) log is normally distributed and is independent of the observation size; and (ii) the mean proportionate growth of a group is independent of the initial size.

Evans (1987) used a modified version of this model, stating that the departures from Gibrat's Law. Evans's model became an inspiration for the other few researchers. For instance, in their paper on investments, inputs and economic growth, Variyam and Kraybill (1994) began with the model presented by Evans (1987). They first estimated the regression model developed by Evans without the squared and cross product terms, and tested for nonlinearities implied by these terms using Theil's BLUS residual tests. Then they estimated several model extensions that have additional sources of heterogeneity in growth rates.

Table 3:Econometric model for Turkey: values of the factors

	lg	Lg	lg	lg	lg	lg
	Real GDP (in \$)	FDI (in \$)	Inflation (in %)	Employment rate (in % to population)	Trade (in \$)	Remittances received (in \$)
1998	11,29	8,97	2,14	1,68	11,05	9,73
1999	11,27	8,89	1,73	1,68	10,99	9,66
2000	11,30	8,99	1,69	1,66	11,06	9,66
2001	11,28	9,53	1,72	1,65	11,00	9,44
2002	11,30	9,03	1,57	1,64	11,05	9,29
2003	11,32	9,23	1,37	1,62	11,15	8,86
2004	11,36	9,44	1,09	1,61	11,29	8,91
2005	11,40	10,00	0,85	1,61	11,36	8,95
2006	11,43	10,31	0,97	1,61	11,43	9,06
2007	11,45	10,34	0,79	1,61	11,51	9,10

2008	11,45	10,30	1,08	1,62	11,58	9,17
2009	11,43	9,94	0,72	1,61	11,47	9,02
2010	11,47	9,96	0,75	1,63	11,54	9,00
2011	11,50	10,21	0,93	1,65	11,64	9,04
2012	11,51	10,12	0,84	1,65	11,66	9,01
2013	11,53	10,11	0,79	1,65	11,68	8,96

Source: Own results

The results of the econometric model can be summarized by the following equation representing the equation depicted in (1) and amended to show the values of the coefficients:

$$\lg(\text{real gdp}_i) = 7.172 + 0.009 \cdot \lg(\text{fdi}_i) - 0.03 \cdot \lg(\text{inf}_i) + 0.685 \cdot \lg(\text{emp.rate}_i) + 0.286 \cdot \lg(\text{trd}_i) - 0.022 \cdot \lg(\text{rem}_i), \quad (2)$$

Table 4 shows the factors' effects (the % increase of the independent variables caused by the 1% increase in the dependent variable (real GDP of Turkey). The values are computed with respect to the fact that all the variables were expressed in logarithms and therefore need to be re-calculated in order to be expressed in real values.

Table 4: Factors' effect

1% ↑	FDI	Inflation	Employment rate	Trade	Remittances
Real GDP	0.0047% ↑	0.0059% ↓	0.1694% ↑	0.3267% ↑	0.0263% ↓

Source: Own results

Table 5 shows the consolidated factor effects (a 1% increase of real GDP would lead to the 0.25% increase in the consolidated factor).

Table 5: Consolidated factor effect

1% ↑	Consolidated factor
Real GDP	0.2528% ↑

Source: Own results

As one can see from the calculations done for the econometric model for testing the factors predefining the level of Turkey's GDP, trade has the greatest positive impact on the country's gross domestic product. Thus, if the figure of Turkey's trade grows by 1%, the country's GDP will grow by 0.3267%. Other positive factors include the rate of employment and foreign direct investment. If the rate of employment grows by 1%, Turkey's GDP will grow by 0.1694%. Respectively, if the level of FDI increases by 1%, Turkey's GDP will grow by 0.0047%. At the same time, in contrast to trade, employment and foreign direct investment, inflation and remittances are negative factors which contribute to the decrease of Turkey's gross domestic product. Thus, if the rate of inflation grows by 1%, Turkey's real GDP will fall by 0.0059%. Respectively, if remittances increase by 1%, the country's real GDP figure will drop by 0.0263%.

Based on the results of the above testing, it can obviously be seen that the level of foreign direct investment has positive effects on the Turkish economy. However, it is worth noting that, among the positive factors, the value of foreign direct investment is the lowest. This means that the growth of FDI is not the most essential factor predefining the level of Turkey's gross domestic product. Moreover, as the figure of foreign direct investment's impact on GDP is almost equal to zero, this obviously means that the level of correlation between FDI and GDP is quite low. This proves the previous empirical findings of the author's analysis which showed weak dependence between Turkey's GDP and the level of foreign direct investment inflow in the country. At the same time, factors such as the rate of employment and trade have a much higher impact on the level of Turkey's gross domestic product, and their respective values are considerably higher than the ones of foreign direct investment inflow.

Therefore, taking into consideration the results of the author's testing run under the above econometric model, it can be stated that Turkey's accession to the European Union and the subsequent growth of FDI inflow in the country through the investment of European companies and private investors will not play a major role in the growth of the country's gross domestic product, and its figure will more largely be predefined by other factors, namely by trade and the rate of employment.

5 Conclusions and policy implications

Turkey's process of integration with the European Union started back in the 1960s, when the country became an associate member of the EU. Since then, Turkey has made many attempts to transform its official status of candidate for membership into the status of full-fledged member of the European community. However, as of today the country has not yet been able to complete its European integration process, and there have lately been declarations of Turkish officials that the country may officially suspend its European integration course.

On the way toward European integration, Turkey has already implemented a great number of reforms in all fields of its activities. Thus, the Turkish legislation in the economic and social fields has long been unilaterally harmonized with the regulations and standards of the European Union for the purpose of complying with the accession criteria imposed by the EU. In the early 2000s, Turkey implemented a wave of economic reforms destined to improve the country's economic indicators and financial results in line with the requirements of the European Union. Thanks to the effective results of those economic reforms, Turkey was able to fulfill the Maastricht criteria, and as of today, in economic terms, the country is compliant with the requirements for prospective members. Moreover, in the social field, the country was able to meet the EU's basic requirements to the protection of human rights and freedoms, and still currently undertakes steps to further improve the situation on this segment. However, the integration process has not recently substantially progressed, which can be explained by objective conditions.

A major obstacle on the way of Turkey's completion of its integration process with the European Union is the country's support of the self-proclaimed Turkish Republic of Northern Cyprus, which is a separatist formation declaring the goal to secede from the sovereign ruling of Cyprus and enter Turkey as its autonomous territory. The self-proclaimed state has as of today been recognized only by Turkey, and it faces heavy opposition of the European Union member states. As Cyprus is a member state of the EU, its antagonistic conflict with Turkey over the territory of Northern Cyprus makes it impossible for Turkey to join the EU. Cyprus blocks all Turkey's

intentions to join the EU, and therefore the prospects of integration currently seem to be vague for the Turkish state.

Turkey's prospective completion of the European integration process may potentially provide the country with great economic and security benefits. Thus, by joining the European Union, Turkey would gain free access to the European market of goods and services, and the local manufacturers could benefit from this situation by offering quality goods at prices lower than the European companies. At the same time, the level of unemployment in Turkey could be potentially reduced through migration of Turkish workers to Europe in search for better working conditions. Finally, it is worth understanding that Turkey's accession to the European Union would provide the country with a far higher level of national security thanks to the participation in collective defense and security mechanisms implemented within the EU. However, the threats represented by Turkey's accession to the European Union shouldn't be underestimated. The country's local manufacturers are weaker than their European competitors, and accession to the EU may lead to closure of many Turkish companies, and thus deterioration of the market conjuncture. Also, cancellation of the national currency in favor of Turkey would deprive Turkey of important economic regulation mechanisms. Finally, Turkey would thus lose its sovereign political levers as part of the national powers would be delegated to the single center in the European Union.

Further progress of Turkey's integration process with the EU will be predefined by many external factors, and as of today, it is hard to forecast whether this process will in the long run be successful.

In my opinion, taking into account the current slowdown and the overall deterioration in the relations between Turkey and the European Union, their mutual cooperation requires a new boost which would allow bringing them to the new level. Despite the protracted misunderstandings between the EU and Turkey on the status of Northern Cyprus, both the European Union and Turkey are interested in running mutually effective business relations which are financially beneficial to both of them. The intensification of economic turnover between the EU and Turkey may become an essential step on the way toward the renewal of negotiations on Turkey's membership in the supranational formation. Also, I believe that in this context Turkey should start bilateral negotiations with Cyprus on the self-proclaimed separatist Republic of

Northern Cyprus. If Turkey indeed wishes to join the European Union, the country will have to refuse the recognition of Northern Cyprus as an independent state, which is a prerequisite for reaching understanding with Cyprus, an EU member state.

If Turkey successfully completes the before mentioned requirements, its chances for getting EU membership will significantly grow. In case the country is finally able to get the official membership status, its development may follow different vectors, as it has already been stated earlier in this thesis. I believe that, overall, Turkey will get significant benefits from its official membership in the European Union. However, on the first stages after the completion of the integration process, the country will be likely to face some major difficulties connected with the differences in its economic development as compared with the EU.

Here, it is first of all worth noting that Turkey will need to substantially update its legislative base for the purpose of meeting the requirements of the European Union, and complying with the European standards and regulations in all fields. This step will be important for the liberalization of the Turkish economy and the effective integration of its domestic market into the European single economic space. The change in the legislation will bring challenges to the economic subjects incorporated in Turkey, as they will have to adapt to the new conditions of doing business and the requirements imposed on them.

Another major difficulty will be the inflow of European goods which are generally of a higher quality. In my opinion, many Turkish manufacturers will be unable to withstand the competition of major European corporations, and therefore will be eliminated from the market. However, at the same time, companies which will be able to revamp their production processes and market practices will significantly raise their level of competitiveness as compared with the situation existing now. This will increase their market performance, and they will even be able to expand to the European market, provided that they are able to meet the demand of customers with some particular key advantages.

After the initial stage of membership in the European Union, namely upon completion of the adaptation process, the Turkish economy will be likely to gain unprecedented opportunities for its subsequent development. Namely, as the conditions of doing business in the country will correspond to the ones existing in the European

Union, and the rules applied will be the same as in the EU, European investors will be interested in investing in the Turkish economy for the purpose of developing their business. Thus, Turkey will be able to get a major boost of its national economy through the increased inflow of foreign direct investment.

The increased cooperation with the European Union will be likely to provide Turkey with additional vacancies, and thus reduced level of unemployment, through the intensified activities of foreign corporations and the enlargement of the Turkish domestic market. Also, if the country enters the Eurozone, its foreign exchange risks will be significantly diminished, thus contributing to the overall stable situation of the Turkish economy.

Another major advantage for Turkey, in case of the country's accession to the European Union, will be the increased energy security through the energy supply diversification programs currently implemented in the EU. The implementation of such programs in Turkey will be likely to positively impact the level of Turkey's economic independence and stability.

A not less important prospective benefit Turkey will gain, if it joins the European Union, is the country's participation in the European collective security mechanisms and systems. It will allow significantly increasing the level of Turkey's national security, and even help further promote the country's cooperation with its allies within NATO.

However, if the time is right and Turkey will be accepted to the European Union, it will have to give up a part of its sovereign powers. Additionally, the country will inevitably fall under the great dependence on the single EU center, which will significantly reduce its possibility in the international arena in both economic and political terms. This may become an important obstacle on the way of the country's integration with the EU, as the availability of such sovereign powers raises the level of the state's independence, which would otherwise be diminished.

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List of charts

Figure 6- European Union's share in Turkey's exports, as of 2013

Figure 7- Dynamics of the European Union's share in Turkey's exports (in %)

Figure 8 - European Union's share in Turkey's imports, as of 2013

Figure 9- Dynamics of the European Union's share in Turkey's imports (in %)

Figure 10 - Correlation between Turkey's economic growth and FDI inflows in 2003-2013

List of tables

Table 6 - Structure of foreign direct investment inflow to Turkey, as of 2012

Table 7 - Correlation between Turkey's economic growth and FDI inflows in 2003-2013

Table 8 - Econometric model for Turkey: values of the factors

Table 9 - Factors' effect

Table 10 - Consolidated factor effect

List of Abbreviations

CEE countries – Central and Eastern Europe countries

EEC – European Economic Community

EMN – Economic and Monetary Union

EU – European Union

FATF standards – Financial Action Task Force

FDI – Foreign direct investment

GDP – Gross domestic product

NATO – North Atlantic Treaty Organization

SCO – Shanghai Cooperation Organization

USSR – Union of Soviet Socialist Republics

Attachment1: Map of Turkey



Source: <http://www.wordtravels.com/Travelguide/Countries/Turkey/Map>

Attachment2: Econometric model for Turkey

Year	Real growth (GDP) (in %)	Real GDP (in \$)	FDI (in \$)	Inflation (in %)	Employment rate (in % to population)	Trade (in \$)	Remittances received (in \$)
1998	2,3	194 216 437 976,9	940 000 000	138,0	48,3	111 802 523 974	5 356 000 000
1999	-3,4	187 680 386 832,2	783 000 000	54,2	47,7	96 718 447 947	4 533 000 000
2000	6,8	200 394 710 743,7	982 000 000	49,2	45,6	115 136 236 404	4 560 000 000
2001	-5,7	188 977 269 251,5	3 352 000 000	52,9	44,5	99 484 898 009	2 786 000 000
2002	6,2	200 625 525 075,8	1 082 000 000	37,4	43,3	113 477 057 458	1 936 000 000
2003	5,3	211 188 991 344,8	1 702 000 000	23,3	42,0	142 511 629 689	729 000 000
2004	9,4	230 962 210 199,1	2 785 000 000	12,4	41,0	195 052 433 532	804 000 000
2005	8,4	250 366 772 494,1	10 031 000 000	7,1	41,2	227 999 711 968	887 000 000
2006	6,9	267 625 779 260,4	20 185 000 000	9,3	41,2	266 782 374 519	1 146 000 000
2007	4,7	280 120 101 291,1	22 047 000 000	6,2	41,1	322 329 293 115	1 248 000 000
2008	0,7	281 965 640 210,3	19 762 000 000	12,0	41,4	381 591 082 597	1 476 000 000
2009	-4,8	268 358 330 269,9	8 629 000 000	5,3	40,9	293 377 236 258	1 050 000 000
2010	9,2	292 931 776 183,9	9 058 000 000	5,7	42,7	350 733 417 820	993 000 000
2011	8,8	318 629 941 593,0	16 171 000 000	8,6	44,6	438 697 599 940	1 087 000 000
2012	2,1	325 408 668 119,6	13 222 000 000	6,9	44,9	455 606 702 394	1 015 000 000
2013	4,1	338 829 122 004,1	12 918 000 000	6,1	44,5	475 621 740 677	919 000 000

Source: Own results

Attachment3: Econometric model for Turkey: weight of the factors

	1,00000	2,00000	3,00000	4,00000	5,00000
1998	0,00071	-0,03194	0,23419	0,19854	-0,08281
1999	0,00061	-0,01298	0,23933	0,17773	-0,07253
2000	0,00072	-0,01105	0,21428	0,19816	-0,06833
2001	0,00261	-0,01258	0,22175	0,18156	-0,04427
2002	0,00079	-0,00839	0,20324	0,19508	-0,02898
2003	0,00119	-0,00496	0,18728	0,23273	-0,01037
2004	0,00178	-0,00241	0,16717	0,29127	-0,01045
2005	0,00590	-0,00127	0,15496	0,31408	-0,01064
2006	0,01110	-0,00157	0,14497	0,34380	-0,01286
2007	0,01159	-0,00100	0,13817	0,39686	-0,01338
2008	0,01032	-0,00191	0,13826	0,46675	-0,01572
2009	0,00473	-0,00089	0,14352	0,37704	-0,01175
2010	0,00455	-0,00087	0,13727	0,41294	-0,01018
2011	0,00747	-0,00121	0,13181	0,47485	-0,01024
2012	0,00598	-0,00095	0,12993	0,48288	-0,00937
2013	0,00561	-0,00081	0,12368	0,48413	-0,00814
	0,00473	-0,00592	0,16936	0,32678	-0,02625
	0,00473	0,00592	0,16936	0,32678	0,02625
	0,00887	0,01111	0,31773	0,61304	0,04925
	0,00004	-0,00007	0,05381	0,20033	-0,00129
	0,25282				

Source: Own results

